

The Management Review

OCTOBER, 1952

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Safety: Challenge to Industrial Statesmanship
Our "Inco" Ideas About Retirement
New Roles for Communicators
Planning a Records Retention-Disposal Program
Improving Business Forms
**Is Your Scientific Research Program Properly
Balanced?**
**Preventive Maintenance—The Quantitative
Approach**
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General Management

THE SUCCESSFUL EXECUTIVE: A PROFILE

WHAT MUST a manager bring to his job to do it creditably? Or, if he doesn't already have them, what personal attributes and skills must he try to develop? It is impossible, of course, to draw up specifications applying to all managers, for there are many kinds of management jobs. Each requires different personality and skill ingredients, mixed in different proportions. But all, to a greater or lesser degree, need the following "basic seven" qualities:

1. One of the most important talents of the high-level manager—particularly the operating administrator—is the ability, as the psychologists put it, "*to see things as wholes*." This calls for balance, proportion, placing first things first, looking beyond the foreground and concentrating on the over-all scene. This talent helps the administrator to coordinate and fuse the efforts of many people, most of them engaged with details, into the complete operation.

2. Another prime requirement of every manager is *intelligence*. By intelligence we do not mean merely what is shown by standard IQ tests as given to college students; it goes far beyond that. Psychologists in recent years have identified a dozen kinds of intelligence. *Ability to visualize*, to picture an intricate problem mentally, is one kind. What we loosely call *judgment*—the ability to see things in proper relation and perspective—is another.

3. Your able high-level executive is a

man of many *ideas*. One measure of his stature in this respect is the size of his *vocabulary*. Few of us acquire words deliberately. We learn them by listening and reading attentively and retentively—in short, as a sort of by-product in the process of absorbing ideas. Johnson O'Connor, in 30 years of testing thousands of people in all walks of life, has shown that executives have the highest average vocabularies—even higher than the average of college professors.

4. Along with his ideas, the manager has "*drive*"—the creative urge to put the ideas into action and get results.

5. *Social skill* is another talent that is highly developed in high-level executives. Based fundamentally on an understanding of one's self, it promotes understanding and insight into the behavior of others.

6. *Emotional balance and stability* are also characteristic of the good administrator. Without them it is difficult to command respect. (Not that many a good executive doesn't blow his top on occasion. But his other good qualities help compensate.)

7. *Dependability* is another vital requirement for success at high levels. If an executive can't be relied upon to keep his word he becomes eventually a marked man—one not to be trusted.

There is a tendency to over-simplify the problems of management. Too many assume that a good manager is a good manager, wherever he's put, in whatever situation. This is decidedly not true. A

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good manager in one spot could be a dismal failure in another.

For example, operating managers have one type of problem as a rule, and staff managers another. Your operating manager must keep things "in the groove." He must keep things repeating themselves without interruption in an established cycle if he is going to get out production. He must be resistant to change, since continuity is the essence of his success.

Most staff managers, on the contrary, are and should be always looking for something new and better. They have no reason to resist change—indeed, they wel-

—*Men & Management* (Edward N. Hay & Associates, Inc., Philadelphia, Penna.), No. 19.

SANTA CLAUS COULD DIE OF OLD AGE

NO ONE shoots Santa Claus. This remark about a government which spends and spends and spends may well be true. But it is also true that Santa Claus is an old man. At his age overwork might well kill him.

It is true that as a nation we now enjoy great prosperity. The prosperity is not nearly so general as the political advertisements of it would suggest. Millions of individuals, notably those living on pensions, annuities, and other fixed incomes, have been robbed of half their purchasing power by inflation during recent years, and whole industries know little or nothing of boom times.

However, measured by so basic a gauge as unemployment, we do have great prosperity. Less than two million of our total working force of over 64 million are unemployed. The real income—i.e., what their dollars will buy—of those with jobs is somewhere near its all-time peak.

come it. Your advertising manager, for example, thrives on a rapid flow of ideas—and the more "revolutionary" the better. His characteristics, his very temperament, differ greatly from those of the production man.

There is increasing agreement, however, on one question about the make-up of the effective manager, whether line or staff: He was not born that way. It is true that some men develop managerial skills more easily, quickly, and to a higher degree than most. But the majority of us have to learn the hard way to be managers—we have to work at it.

The prosperity we enjoy, however, is precarious—largely because it is dependent upon a rising volume of expenditures by the Federal Government. At present almost a quarter of our entire national income is ladled out through Washington.

If, as matters now stand, federal expenditures were to be suddenly and sharply cut, our government-financed prosperity would be severely upset. But if the Federal Government were to try to keep right on providing prosperity by steadily increasing its expenditures, the end result would be more certainly disastrous. It would be a crash caused primarily by having continuing inflation of prices destroy the value of the dollar.

Higher government expenditures of worthless dollars then could accomplish nothing. Santa Claus would be dead from overwork.

The general route to be followed in putting firm foundations under our pros-

perity is quite clear. The first step is to stop the continuous increase in federal expenditures. The second is to substitute expanding private business for government-financed business as the principal foundation of expanding prosperity.

A key question to be faced by both

political parties is, "How long can we continue to have prosperity?" The answer—not very long if we rely primarily on new injections of inflationary federal expenditures. Santa Claus, be it remembered, is no youngster. If we continue our present improvident course, he will be worked to death.

—From an editorial appearing currently in McGraw-Hill publications.

Trifocal Management

WE ARE INDEBTED to Benjamin Franklin for an invention which adds much to our comfort today—the bifocal lens, which enables the wearer to see near and far with one pair of spectacles. The quality of being bifocal has long distinguished the able business administrator from the mediocre—he has resisted the tempting path of shortsighted expediency and followed the harder course of farsighted soundness.

But neither the science of optics nor the course of business is static. In the optical field it was inevitable that someone would carry Benjamin Franklin's idea a step farther and develop the trifocal lens, which overcomes the abrupt change between near and distant vision.

In facing today's problems and planning for the growth of an enterprise, trifocal vision is imperative. The executive faces, first of all, the necessity of keeping his business in momentum—this week, this month, this year. To accomplish this involves short-range decisions. In addition, he must be sure that his short-range decisions are in harmony with soundly conceived long-range objectives. This is the bifocal aspect of his job.

However, there is a middle area which must be negotiated. Under today's confused conditions few managements can plan with confidence for 15 or 20 years ahead, as once was the common practice. Three to five years seems to be about the limit of our vision, and even this involves more of a gamble than many business men are willing to take. Therefore, in between the danger of being shortsightedly expedient and the desirability of being farsightedly sound is the practical need of being middlesightedly realistic.

The head of a business must therefore ask himself what kind of business he is trying to build, long-range, and then check all his plans and decisions against the question: Three, four, or five years hence, what shall I wish I had decided—or planned—today?

This is the essence of trifocal management.

—*Management Briefs* (Rogers, Slade & Hill) No. 48

INDUSTRY is continuing its trend toward locating new plants away from big cities, according to a survey of industrial contract awards made by *Engineering News-Record*. The survey revealed that only a sixth of the new plants were in cities; about a third were in metropolitan areas; and more than 50 per cent were located beyond the metropolitan areas of cities having 200,000 or more population.

—*Factory Management and Maintenance* 6/52

LONG-RANGE PLANNING: A SURVEY OF COMPANY PROCEDURES

THE VALUE OF long-range planning is generally recognized, but few standards exist in industry regarding planning activities or optimum duration of such programs, according to a survey of 151 companies conducted by the Conference Board. Moreover, companies differ in their methods of approaching the planning problem. In some firms long-range planning is conducted according to formalized procedures, while in others it is carried out in an almost haphazard manner. But, in either case, long-range planning helps steer the activities of the company toward a definite goal.

Throughout industry as a whole there are few functions which are not subject to planning on a long-term basis. Capital expenditures rank first among these. Second in importance to capital expenditures, and closely related to them, are other activities in the financial field. Items such as cash requirements, profits, working capital, budgets, and even tax payments are planned far in advance by two-thirds of the companies surveyed.

Sales effort is also planned on a long-term basis, according to more than half the companies using the long-range planning technique. Among the sales activities which are pre-planned for a period of years are market research, sales promotion methods, sales coverage, advertising, and distribution. Also, in many companies research and the development of new products rank high in long-range sales-planning programs.

In most instances, companies set up a target date and then plan all their activities with that date in mind. Three to five years is the most common term for long-range planning, although the length of time for which plans are made varies

widely from company to company. In some instances, long-range plans are confined to two years, while in others they are measured in terms of decades. And even within individual organizations the long-range planning period often differs according to the subject under consideration.

Responsibility for directing and coordinating long-range planning is invariably a function of top management. But only rarely is this responsibility vested in one man. Where it is, the president usually handles the task. In many large organizations, however, the board of directors, through the chairman or the executive committee, retains responsibility for long-range planning. In other companies, a committee of all top executives coordinates the activity; in still other cases the president and executive vice president are responsible for the company's long-range planning function. In a few instances planning is a responsibility of the treasurer or controller, subject to review by the president or the board of directors.

Although direction of the planning activity is usually top management's responsibility, participation in formulating plans is not confined to the highest levels of management. In most cases, long-range plans are formulated by heads or members of the departments concerned and submitted to top management for review. Less than 10 per cent of the companies surveyed indicate that they employ any personnel who devote their time solely to long-range planning. In most cases the function is carried out in conjunction with other duties.

Some form of outside assistance in formulating long-range plans is used by

more than half the companies surveyed. However, these companies emphasize that the outside help is not used in planning as such, but in an advisory capacity on certain aspects of the planning process.

Outside assistance is obtained most often in the field of economics and finance. In addition, the use of consultants in the fields of marketing, research, industrial facilities, and law is quite common.

BUSINESS GIFTS: MESSENGERS OF GOOD WISHES

THERE HAS BEEN a marked trend toward giving merchandise as business gifts to employees, customers, and friends. In 1951, it was found that 36 per cent of the firms participating in a *Fortune* survey gave gifts other than money to employees, while 59 per cent gave such gifts to business associates. The average amount spent per company on business gifts varied from \$864 to \$18,710.

Experience has shown that gifts are most effective in promoting good will when taste and discretion are used in their selection. They should be tailored to the recipient's position, desires, and needs. To give something too extravagant to an employee or lesser company official is often a waste; contrariwise, to give an insignificant gift may have a worse effect than no gift at all.

Nor should a gift be of such value that it implies obligation on the part of the recipient. It should never be a payoff for past or future favors, but should merely serve as a messenger of good wishes. Another important point to be remembered is that gifts to those of equal status should at least have equal value if they are not the same items. Favoritism among customers and employees often breeds jealousy and ill will.

Though the types of merchandise utilized as business gifts are unlimited, there are a number of types that have

become increasingly popular. Their popularity is attributed to several causes:

1. *Convenience of purchase.* The item is easily attainable at a number of good reliable sales outlets.

2. *Advertising.* The item may be so well known through intensive advertising and promotion that the buyer knows the gift is desired and will be readily acceptable.

3. *Suitability for imprinting.* A gift that can be personalized by having the recipient's initials imprinted on it gives the intimate touch that often takes the item out of the "ordinary" class.

4. *Convenience of size.* The gift that is compact enough for attractive gift-packaging and can be easily handled and mailed has an important advantage.

Other than that, it is a matter of individual preference. Some like an item that can be used on an office desk, while others prefer a personal gift that can be carried in the pocket; still others would rather have something that can be taken home and shared with the entire family.

The latter category has been gaining in prominence over the past few years. Gift recipients seem to appreciate something for the home. Both the business man and his wife are impressed when the gift can be put to continual use.

A few suggestions listed by *Sales Management* for business gift-giving are:

- (1) Take time to do a careful check job on your list. Include name initials and "Mr.," "Miss," or "Mrs.," if your list is made up of both men and women.
- (2) Stay away from things that are too gadgety.
- (3) Be sure your gifts are in good taste.
- (4) Do your shopping early so that you have ample time for wrapping and mailing to insure arrival before the holidays.
- (5) Spend extra money on gay wrappings if your gift is wrappable.
- (6) Buy the best quality available of a lower-priced product rather than a poor quality of a higher-priced product.
- (7) If you have your company name and/or trademark on your gift, keep it subdued; you spoil the whole thought of gift-giving by over-commercialization.
- (8) Remember that overly expensive or overly elaborate gifts often embarrass the recipients and thus defeat their own purpose.

—ROBERT S. LAVINE. *Premium Practice and Business Promotion*, July, 1952.

Interplant Visits: Tool for Executive Development

SECRECY in the modern business world is a thing of the past, and exchange visits by executives from different companies are valuable parts of their experience. This opinion was voiced by Clifford Corneli, of the Corneli Seed Co., St. Louis, Mo., at a recent seminar sponsored by the University of Wisconsin's Industrial Management Institute.

"A good executive wears out shoe leather, not the seat of his trousers," Corneli noted. "In my company we are concerned with training younger men for executive jobs, and one of the ways we do it is by arranging for them to visit other plants, to see other products, to learn new processes. It sharpens their observation and gives them new ideas.

"The old idea of keeping processes secret is pretty obsolete today because scientific know-how is shared by so many thousands. For example, we have just succeeded in producing some new strains of corn for use in north central states, after three years of experimenting. Next Tuesday we are inviting our competitors to come down to our Illinois plant at McLean to see the new product."

The Business Population Today

THE BUSINESS POPULATION currently consists of slightly more than 4 million firms, quite close to the post-war peak reached in June, 1948. This exceeds the pre-war level by nearly 20 per cent and the World War II low, reached at the end of 1943, by one-third. From 1948 to date, the over-all business population has been extremely stable, a development which is remarkable in view of the diversity of conditions characterizing this period.

Only two major industry divisions—contract construction and transportation, communication, and other public utilities—have shown significant increases over the past year. There are now more than two and one-half times as many construction firms in operation as there were at the end of 1943; this division alone accounts for 23 per cent of the increase which has occurred in the total business population since that date.

During the past year the number of retail trade firms continued its decline which, except for an interruption during 1950, has been in progress since the 1948 peak. Declines in the number of firms dealing in food have brought about this move-

ment in the division as a whole. Wholesale trade and finance, insurance, and real estate experienced modest gains in the past year, while the remaining major industry divisions remained unchanged.

In manufacturing, the number of durable goods producers continued to increase during this period in response to the demands of the defense program, but these gains were offset by continued declines among producers of soft goods. This is in contrast to the 12-month period ending in March, 1951, during which the strength of the durable goods sector brought about a moderate increase in the total number of manufacturers. Manufacturing as a whole reached a post-war peak in 1947, about one year earlier than the other major industry divisions. However, most of the decline which followed was concentrated among nondurable goods manufacturers.

—*Survey of Current Business* (U. S. Dept. of Commerce) 6/52

The Professors Study Industry—From the Inside

THE PROBLEM OF achieving closer coordination between industry and the classroom is an old one. However, Boeing Airplane Company, Seattle, has developed what it thinks may be one of the cheapest and most effective gap-bridging programs yet. Boeing's idea is to hire college professors and faculty members during the summer, let them work at its plants and see how industry operates. When they return to school they can pass their knowledge on to students and be in a far better position to counsel them about the practical needs of industry.

The program, begun on a tentative basis last summer, was expanded and formalized this year with 84 faculty members from 54 schools throughout the country.

Under Boeing's program, professors work at their highest skills wherever possible; routine assignments are avoided. Early in the year, executives go to department supervisors and ask them to plan special 90-day projects (writing of handbooks, experimentation with metals, and the like). This keeps the professors at the plant all summer, assures them that they aren't just stop-gap employees who will be laid off as soon as the men they're replacing come back.

Boeing generally puts the professors fairly low on the scale of responsibility. Some report directly to the project engineer; most are a level or two below that. The company pays each of them the same salary he gets from his college, plus round-trip air fare.

As a result of their work with the company the professors return to their classrooms with first-hand knowledge of industry and of the practical aspects of engineering. The professors, in turn, send Boeing graduate engineers who have acquired in advance some knowledge of the company. Boeing gets a valuable addition to its workforce each summer, and the professors often do specialized work that the company had been wanting to do for years—but hadn't tackled because of lack of extra staff.

—*Business Week* 9/13/52

THERE ARE NO SUBSTITUTES for the genuine thing, no wholly satisfactory compromise with the ideal—whether it be a product, a person, or a way of life. An ancient Greek jest exemplifies this: A man who was invited to attend a theatrical performance featuring an actor who could exactly counterfeit the nightingale turned down the invitation with these words: "Son, I have heard the nightingale itself."

—*The Royal Bank of Canada Monthly Letter* 8/52

SAFETY: A CHALLENGE TO INDUSTRIAL STATESMANSHIP

TO THE REST of the world those aspects of American production which have proved particularly impressive are matters of spirit and attitude rather than of machinery and procedure. These seem to explain the success of American industry as compared with industrial enterprise elsewhere.

And here is where management comes into the picture. Though the manager cannot be an expert in all the technological phases of a business, in one aspect of American industry he remains the dominating force—in the development and maintenance of the proper spirit and attitude. If the head of the company is an autocrat, there will be little autocrats all through the company. If the boss uses his position to feather his own financial nest, you may be sure that the office boy is swiping postage stamps. Finally, if a manager says one thing and his actions say otherwise, he will be promptly recognized as a phony. Today pressures from government, customers, employees, stockholders, competitors, and the general public make it difficult for management to get away with anything.

If these things are true—if success is largely a matter of spirit and attitude, if management is the agency primarily responsible for spirit and attitude, and if management must practice what it preaches—what, to be specific, can management do to promote safe practices? Here are some guiding principles which should govern its participation in any safety program:

1. Management must really believe in the importance of industrial safety.

2. It must understand that an industrial safety program will have to satisfy pressures from government, customers,

employees, stockholders, and the general public.

3. It must recognize its responsibility for the development of spirit and attitude at all levels of the organization.

4. It must practice what it preaches by providing funds for adequate safety personnel, adequate safety training procedures, and adequate safety equipment.

These requirements concerning management's role in a safety program are common to all programs in which management participates. They are the elements of industrial statesmanship—belief in the rightness of the program, recognition of public concern in the program, development of the right spirit and attitude within the company toward the program, and support of those charged with the successful carrying out of the program. If management does this part of the job, and if the right people carry out the program, it will work and it will pay.

This has been amply proven by our experience at the General Petroleum Corporation. In our company, we have been fortunate enough to have the management attitude described above as well as competent people working on safety. The results of this combination can be seen in the following statistics:

In 1951 our accident frequency rate was 2.55 per million hours worked. The over-all rate of 184 other companies was 10.07, four times as high as the General Petroleum experience. Though our 1951 rate was the lowest in our history, evidence that it was not an accident itself exists in the rates for the past five years:

1947 — 10.79	1950 — 4.19
1948 — 5.88	1951 — 2.55
1949 — 6.25	

Our company self-insures workmen's compensation risks. Last year, our company-wide costs were 19.1¢ per \$100 payroll. This actual cost figure for all our somewhat hazardous operations is lower than the Insurance Manual rates for messengers or sales people.

Our Production Department cost was 36.4¢ per \$100 payroll, compared with manual rates of \$5.79 for oil well drilling and \$1.75 for oil producing.

Our Refining Department cost was 19.5¢ per \$100 payroll, compared with the manual rate of \$1.65 for oil refining.

—From an address by R. L. MINCKLER (President, General Petroleum Corp.) before the Greater Los Angeles Chapter of the National Safety Council.

Only one of our operating departments had a rate higher than our accounting department.

Our experience has demonstrated, I believe conclusively, that accidents can be reduced by adequate management policies and procedures and that an efficient safety program is an extremely profitable operation.

The development and maintenance of such a program is a worthwhile adventure. It is humanitarian, it is in the public interest, and, finally, it is in the true tradition of industrial statesmanship.

The Federal Bureaucracy—and How It Grew

IF the citizen of 1852 had been able to peer into the future, the vision of our colossal Federal Government of today would have astonished him mightily.

One hundred years ago the government conducted all its affairs with some 33,000 employees. Today there are more than 2,500,000 civilians on its payrolls. In terms of population, the first figure represented 1.4 federal employees per 1,000 persons, while the second amounts to 16.1 per 1,000. And if state and local governments are added, the grand total of employees in governmental activities today is around 6,000,000. This is about 4 per cent of the total population, and about 10 per cent of all employed persons.

A significant aspect of this development is the rising trend in the number of federal employees now working in non-defense agencies. These agencies as a whole now have 31 per cent more employees than in June, 1945, and 74 per cent more than in the first quarter of 1939. And to go back 20 years, the total number of federal civilian employees in 1932 was 583,000, while in March of 1952 the number for non-defense agencies alone exceeded 1,225,000.

This rapid increase in non-defense employees reflects the great enlargement in the government's management of the affairs of citizens during the past two decades. Once governments start to travel that road, they are usually prone to extend their management by adding still more controls and regulations. The road's final destination is the all-powerful state, under which the rights of individuals mean little or nothing.

—Cleveland Trust Company Business Bulletin 7/16/52

EXECUTIVE PERFORMANCE REVIEWS are in use on a periodic basis in only 39 per cent of the big companies surveyed recently by the Bureau of National Affairs, Inc. Among smaller companies, 49 per cent had some sort of checkup on their executives.

—Business Week 8/2/52

Also Recommended • • •

SURVEY OF BUSINESS EXPECTATIONS FOR THE FOURTH QUARTER OF 1952. *Dun's Review* (99 Church Street, New York 8, N. Y.). This article records the expectations of 1,277 representative manufacturers, wholesalers, and retailers concerning sales, profits, selling prices, level of inventories, number of employees, and new orders for the fourth quarter of 1952. Over-all, business men look for sustained or increased sales in the fourth quarter of 1952, and nearly all the executives interviewed expect that operations in this period will be profitable.

MANAGEMENT PREROGATIVES: WHAT'S HAPPENING TO THEM? *Modern Industry* (400 Madison Avenue, New York 17, N. Y.), June 15, 1952. Management has been steadily losing its prerogatives to labor over the last 25 years, the author maintains. He traces the development of this trend and presents 28 recommendations which should help management regain lost ground. One point made is that management must avoid the rather common error of sending inexperienced representatives to union-management meetings where they are quickly bested by labor experts.

U. S. WORKERS WHO DON'T GET MINK. By Robert Ramspeck. *The New York Times Magazine* (229 West 43 Street, New York, N. Y.), July 27, 1952. Millions of honest, hard-working Americans in Civil Service are the victims of thoughtless and indiscriminate charges, Mr. Ramspeck maintains. He examines the myths that have led the public to condemn all government employees for the misdeeds of a few and concludes that we must not allow careless generalizations to shake our belief in the soundness of our government institutions and the integrity of the career civil servants who staff them.

HOW TO DOUBLE A TRAVELING EXECUTIVE'S TIME. By E. Paul Charlap. *Management Methods* (141 East 44 Street, New York 17, N. Y.), August, 1952. In 1948 there were 6,471 corporation-owned aircraft in the United States, of four-passenger capacity or better; by the end of 1951 this number had increased to 18,244. The chief reason for this growth is the discovery that this form of transportation saves both the company's money and the executive's time. This article compares air, auto, and rail transportation in terms of costs and speed and also discusses the costs involved in owning a plane.

OUR CHANGED POPULATION OUTLOOK AND ITS SIGNIFICANCE. By Joseph S. Davis. *The American Economic Review* (450 Ahnaip Street, Menasha, Wisc.), June, 1952. The population of the United States has radically changed in numbers, age composition, and marital composition since 1940. In numbers, it has increased by 25,500,000, with the most striking increase among children and persons over 65. This article contrasts actual population changes with earlier forecasts of experts, upon which much business and economic thinking is presently based, and points to some significant problems and questions that will have to be re-examined in light of the new evidence.

HOW TO RETIRE EXECUTIVES. By Perrin Stryker. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), June, 1952. Failure to retire the manager who is too old to keep on working can not only interfere with efficiency all down the line, the author points out, but it can cause management to become bogged down in outdated ideas and overly conservative policies. The article shows how various companies are facing up to the economic and psychological problems involved in preparing the aging executive for retirement.

PLANT CAPACITY: TOO MUCH OR TOO LITTLE? By Stahl Edmunds. *Harvard Business Review* (Gallatin House, Soldiers Field, Boston 63, Mass.), July-August, 1952. Plant and equipment capacity in the United States is no longer "too little"; it seems on the verge of being "too much." The final key to overcapacity or undercapacity, the author points out, is consumer demand. He shows how business men can accurately estimate such demand for six months or a year ahead and through use of this forecast put their planning for capital outlays on a sound basis.

THE VALUE OF ENGLISH IN BUSINESS AND INDUSTRY. By Quentin Oliver McAllister. *Business Executives and the Humanities* (The University of North Carolina Press, Raleigh, N. C.), Bulletin No. 3, 1951, \$1.50. In this survey, 44 top executives in widely varied fields give their individual views on the relationship between sound training in English and success in business. All agree that the relationship is close, and some complain that college-trained employees evidence inadequate secondary school preparation in spelling, simple composition, and grammar.

Personnel Management

OUR "INCA" IDEAS ABOUT RETIREMENT

WHY DO we take it for granted that we shall be forcibly retired from work at the age of 65—or, as is actually done in some organizations, at 60? The origin of this idea in modern society is not entirely clear, but in any case it is a totalitarian, "statist" concept, best suited to the rigid social structure of the Incas, who thousands of years ago established a fixed age-scheme. Under this system, between the ages of 20 and 25 the Inca was a worker; from 25 to 50 he was the head of a family and a taxpayer; from 50 to 60 he grew old; and after 60 he was "an old man sleeping."

The Inca civilization has perished, but archaic ideas about "retirement" are still poisoning our social atmosphere. They are not only cruelly unjust in that they take no account of a person's capabilities; they ignore present-day vital statistics; they are unrealistic in a medical sense; they are bad psychologically; and, finally, they are a grave and unnecessary handicap to the national economy as well as a threat to the security of those over 65.

Let us take first the actuarial error. It is estimated that by 1975 the average period between retirement and death will be about 10 years—or three times longer than in 1900. Increased longevity and usefulness have made retirement at 65 as old-fashioned as life insurance mortality tables which are not readjusted yearly to keep pace with the extending life span.

Next, let us consider the medical aspects relating to individual abilities. Studies have told us a good deal about

age group capabilities. It appears that the average person of 65 is now as biologically efficient as the average person of 50 was a generation ago. Physical strength and mobility climb to a maximum at 20, and then slowly decline. The curve of mental potency rises sharply up to 40, shows a slower rise to a peak at 60, and a slow decline to 80. However, the average mental standard at 80 is still equal to that at 35. As a whole, the loss of physical strength and mobility in old age is well compensated by greater steadiness, thoroughness, and wealth of experience.

Studies of the Bureau of Labor Statistics during the war years bear out this view of the capabilities of older people. Absenteeism among the men studied was generally less frequent among the older workers, and it was highest among the youngsters under 20. Among the women, the lowest absentee rate was in the group 55 to 59 years. And the record of older workers in regard to disabling injuries and illnesses was better than that of younger age groups. Even among persons from 65 to 74 almost half were not affected by any chronic disability.

Another important factor to consider is the psychological effect of enforced retirement at 65. Under normal conditions man needs work. It is an essential part of his existence, conducive to his mental and physical health. Almost nothing is more deleterious, even dangerous, than a sudden change from work to enforced idleness.

From the standpoint of the national economy, the present retirement system is especially dangerous—particularly at this time when full production for defense and prosperity is needed. According to Dr. Thomas Parran, the compulsory retirement limit at 65 years of age now deprives this country of the potential labor of 1.5 million persons who could earn \$4.5 billion a year. No country and no economy can afford such waste—least of all a country engaged in defense or war efforts.

A final reason for revising our attitude toward retirement is the fact that people can't afford to retire. With about 13 million Americans over the age of 65 and 20 million to be expected by 1970, we shall have to face the fact that most of our present protective devices, such as annuities, pensions, old-age security benefits or assistance, appear completely unrealistic. According to the United States Census Bureau, over 30 per cent of our citizens of 65 and over have no money income. Of the remainder 60 per cent have less than \$1,000 a year, and only 20 per cent have \$3,000 or more.

What, then, can and should be done about people over 65 who are capable of working?

First, we ought to expel the word "retirement" from our vocabulary and with

—MARTIN GUMPERT. *The New York Times Magazine*, July 27, 1952, p. 10:3.

it the whole phony philosophy that it symbolizes. Beyond that, we need job analysis and worker analysis in order to match the right employee to the right kind of work. Since the process of aging may bring about new assets or new liabilities, an employee should be re-examined periodically as to his capacities for certain performances.

A number of techniques have been developed to assist the semi-retired worker with reduced worker capacity. "Phased retirement" involves such steps as working four days a week at age 55, three days a week at 60, two days at 65, and the like. It can include cutting down the daily working hours to four, employment in less productive work, and revised pay schedules.

The prolongation of life is one of the few positive and happy achievements of this century. Not only has the extension of the life span given virtually a new lease on life to the individual, it has opened a new frontier of existence beyond which we may discover the yet unknown territory of age. To handle the present problems of our aging population with vision and determination is a challenging adventure. Let us hope that in pursuing it we may prepare a future of wisdom, maturity, and peace.

NEW ROLES FOR COMMUNICATORS

RECENTLY, THE "Help Wanted" columns of the big dailies in New York City and Chicago have carried advertisements seeking specialists in employer-employee communication. Only a few years ago these advertisers might have

been looking, somewhat falteringly, for people who could "edit house organ for employees, also help out in Personnel Department; salary \$45 per wk." Today these ads demand someone who *knows* his way around in all the tunnels of

communication, and salaries often run into five figures.

What's the significance of all this? Simply this: Some managements are beginning to invest employer-employee communication with importance and urgency. In addition, they are insisting that communication broaden its scope, that it cover all needs. Yesterday the burden was carried by a single device—generally the company publication for employees. Today the load is being distributed over much wider territory. For the industrial editor who has been limited to a single medium, it's an hour for expansion.

Therefore, the wise individual in communications will no longer limit his activities or observations to one or two devices. If he is observant, he knows about and is using such tried-and-trusted communications media as the management newsletter, bulletin board, annual report for employees, and payroll envelope insert. He has built for himself a working knowledge of individual and group meetings. He understands open houses and plant tours, and if necessary, can handle press relations for his employer. In addition, he is watching for, and using, newer methods of communicating. Here are some:

The daily news bulletin. Managements for years have been dawdling over using news on plant bulletin boards, often preferring to buy their way into employee

favor through the use of mawkish posters on all-out production. To satisfy employees' desires for news about the plant, a company can issue a news bulletin on a daily basis, either posting it on the board or distributing it by messenger to key spots and having it passed out from there. It's a bright new adaptation of an old medium.

The operations strip film. Employment supervisors often wonder why they can't find informative pictorial material for new employees. Recruitment agents have the same gripe. Yet in many companies the employee paper has published photos of operations and products, and these could be used for strip film or slide film purposes without difficulty and at little expense; they could also be developed into a small, inexpensive manual for distribution at the time of employment.

The company year book. It isn't here yet, but it's on the way. It's a picture review of what's taken place during the year and is built along the lines of a high school or college annual. The financial mumbo-jumbo will be developed around pictures, not charts and graphs.

There are many other devices being developed, since communications cannot stand still. The individual in industrial communications who does the same things today he did yesterday, and in the same way, by tomorrow will be bumping his head against a ceiling of his own creation.

—*The Score* (Newcomb & Sammons, Chicago, Ill.), August 17, 1952.

Factual "Career" Booklet Aids College Recruiting

OUTSTANDING among the literature being distributed to college students for recruiting purposes is the 32-page "career" booklet of B. F. Goodrich Company which offers specific information about job prospects in the company. Many such recruiting pieces present a general picture of the company as "a good place to work," and stop right there. Goodrich, however, believes in offering student-

prospects more detailed information concerning specific jobs for which they may be candidates.

The booklet outlines opportunities for graduates by first describing the operations of all the firm's divisions and subsidiaries in research and development, engineering, production, management, time and motion study, methods, sales, purchasing, finance, accounting, and control. Under these division headings appear capsuled job descriptions, together with an outline of desired educational backgrounds for each position. Photographs showing in-factory operations, office arrangements, and rubber products at work in industry are liberally sprinkled throughout the publication.

In addition to distribution on the campus, the booklet has been mailed to Goodrich stockholders for circulation among their families and student friends. Sample copies may be obtained upon request to the Secretary, The B. F. Goodrich Company, Akron, Ohio.

—*Sales Management* 5/20/52

How to Stage a Successful Plant Contest

PLANT CONTESTS, properly handled, are a valuable management tool. They encourage teamwork and can open up a gold mine of employee enthusiasm, ideas, and initiative. Most important of all, these benefits do not disappear the day a contest closes. They are generally reflected for some time afterward in improved workmanship and productivity.

Here is practical advice on how to run a successful plant contest, based on experience at Sylvania Electric's Radio and Television Division:

1. Don't try to do it all yourself. Use committees for planning and execution of the contest. And get all groups on committees—management, employees, union representatives.
2. Build everything around team competition. And be sure all teams have a reasonable chance to win. The fairest plan is to have many small teams rather than a few large ones.
3. Allow plenty of time for preparation. Try to anticipate complications in advance. Start publicity at least a month before the kick-off. If possible, try out the scoring system in an advance "dry run" for a couple of weeks.
4. Make scoring simple. It should be as comprehensive as possible, of course. But don't hesitate to sacrifice literal accuracy for simplicity—and don't be afraid of scores based on referees' judgments.
5. Report progress and team standings often—say, once a week. Always issue reports on time. Large, dramatic "scoreboards" are a great asset.
6. Don't run a contest too long. You risk having it die from employee boredom.
7. Have many, many rallies, meetings, and team pep talks. Parades and decorations alone won't sustain interest over many weeks.
8. Set up a clearing house to handle scoring information and complaints. You'll always have some questions, and this is the only way to handle them rapidly and fairly.
9. Be sure everybody understands just why the winners won. Oddly, this can be overlooked. The best way is to announce all final scores at once, and explain standings in full detail.
10. Most of all—don't worry about wasting manhours. If you run the contest right, the lost time will be more than made up.

—*Factory Management and Maintenance* Vol. 110, No. 2

BARGAINING PROBLEMS DUE WITH NEW LIVING-COST INDEX

COST-OF-LIVING "escalator clause" problems are coming back to haunt bargaining tables. Most management men hoped that this ghost was permanently laid when the Bureau of Labor Statistics adjusted its Consumers' Price Index in January, 1951, to reflect current buying habits. Now the Bureau is preparing a wholly new Index which throws many existing labor-management agreements out of kilter.

The great majority of present "escalator clauses" are, of course, based on the BLS Consumers' Price Index, either the Old or Adjusted Series. The "new" CPI, which is due to be published early in 1953, will be completely different from both the indexes now being used. Here in question-and-answer form are some of the problems this new development poses for companies that give wage increases tied to the cost of living:

How will the "New Index" differ from the "Old" and "Adjusted" ones now in effect? Both the Old Index and the Adjusted Index use a 1935-1939 base, with the latter corrected to include many items which were not in the buying picture during the base period. Under both these indexes, the average of prices during 1935-1939 is considered to equal 100. Under the New Index rises in the cost of living will be measured from a 1947-1949 base. Since such rises are not so great as those since 1935-1939, the figures in the New Index will be substantially different—lower—than those in existing indexes.

Why does the BLS feel that the New Index is necessary? Mainly because the country's economy has changed so radically in the last 15 years. The statisticians believe that only a base covering representative postwar years will ade-

quately indicate the present pricing and cost-of-living picture.

Will the Old and Adjusted Indexes be continued when the New Index is put into effect? Present plans are to publish the January 15, 1953, figures as computed on the new base. At that time the Old and Adjusted Indexes probably will be discontinued.

What will companies do at that time if they have escalator clauses geared to the Old or Adjusted Indexes? That depends on how the contract clause is worded. For example, the General Motors provision will become inoperative and probably will be renegotiated. This is the present GM clause:

The parties to this Agreement agree that the continuance of the Cost-Of-Living Allowance is dependent upon the availability of the official monthly BLS Consumers' Price Index in its present form and calculated on the same basis as the Index for April, 1950, unless otherwise agreed upon by the parties.

However, a few other companies have specifically looked ahead and agreed in advance to the procedure to be followed in the event that the BLS Index was changed. Dow Chemical, for example, agrees to work out a "conversion factor" with the union. (A conversion factor is a device for converting the New Index so that it can be compared with the Old or Adjusted Index previously used.) This provision reads as follows:

Should the Bureau of Labor Statistics change the manner of computing the Index during the life of this agreement, the parties will meet and agree upon a conversion factor which will fairly adjust the presently agreed upon base to a comparable figure in line with the new method, and that such revised base will replace the

figure of 169.3 in computing future cost-of-living bonus payments.

On the other hand, some prefer to leave the matter of a conversion factor up to the trained statisticians of the BLS and have agreed to use the conversion factor provided by the Bureau.

Where the contract is silent about BLS changes in its indexes, the only course open would seem to be renegotiation of the escalator clause. In most cases, this will mean that the parties will work out a conversion factor of their own or else will adopt one supplied by BLS.

What should be my bargaining strategy if I have to negotiate a new union contract at some time during the next several months? Best course would seem to be to postpone agreement on an escalator

—Employee Relations Bulletin (National Foreman's Institute, Inc.), Report No. 345, p. 3:3.

clause, even if it means negotiating a wage increase on some other basis. If you can put the matter off until some time next year, you will have an opportunity to observe the New Index and get some idea of its rate of acceleration.

If you must include an escalator clause in your new agreement, be sure to set forth clearly the steps to be taken when the New Index becomes effective. You can provide for a reopening of the contract at that time for complete renegotiation of the escalator clause and a switch-over to the New Index. Or you can provide for suspension of the clause at that time. Or you can agree to the use of a conversion factor. In any case, be sure not to leave the matter up in the air —or you may be in for trouble.

Experience with Automatic Coffee Vendors

ARE COMPANIES that have installed automatic coffee machines finding them satisfactory? A recent survey of a dozen large plants (averaging around 5,000 workers each) indicates almost uniformly favorable experience with this type of canteen service, reports the National Industrial Recreation Association.

Eleven of the companies indicated that they were satisfied with the machines, commenting that they were "well-liked and patronized," "definitely valuable," and that "employees seem to expect such facilities." Only one company felt that the coffee-vending service to employers was not appreciated and worth while.

Leading problem among the 12 using these machines seemed to be the handling and disposal of used paper cups, with none indicating that a satisfactory solution to this housekeeping problem had been devised. One company complained of crowding around the machines, but stated that this was not a serious drawback. Three mentioned that the quality of the brew sometimes left something to be desired.

Six of the 12 companies allow employees to patronize the machines at their convenience; the other six make the machines available only during regular relief periods.

—Idea Clinic (National Industrial Recreation Association, 203 North Wabash Avenue, Chicago, Ill.) No. 318

"It is NOT company policy to have people go home on Friday night after a week's work anything like as tired as they come in on Monday morning after the rigors of our American week-ends," says L. R. Boulware, Vice President in Charge of Employee Relations at General Electric.

—Quote

APPLYING THE GOLDEN RULE TO PROFIT SHARING

SINCE PROFIT SHARING deals with many individuals making a variety of contributions to the enterprise, it presents a problem in human relations. A profit-sharing plan should, therefore, be based on the most important of all human relations principles—the Golden Rule. Any project involving human beings that ignores this precept is bound to fall short of its goals.

Profit sharing, if it is to live up to the Golden Rule, should be aimed at providing increased compensation in a way that insures fair treatment for all. What is "fair treatment"? This question can best be answered by a discussion of the five factors involved in the profit and loss sharing process:

1. *Determination of Net Profit.* Net profit is what is left after all legitimate charges against the year's operations have been made. These charges consist of operating costs, reserves for depreciations, bad accounts, and all applicable taxes, including income taxes. Also, some portion of the net profit should be set aside before distribution as a protective reserve fund against emergencies.

Most concerns set up an additional reserve for expansion of plant and equipment. There are certain arguments for this practice, but, essentially, it is contrary to the "fair treatment" principle, since such improvements increase the overall value of the investors' equity at the expense of the employees. Since plant and equipment are capital items, any increase should be accomplished by an increase in the capital investment, rather than by an increase in the book value of the shares. The investor is not entitled to any values (other than his share of the profits) that he did not buy when making his investment.

2. *Determination of Distributive Profit.*

When all the charges outlined, including hire for the use of investors' money, depreciations, reserve for all applicable taxes, and an emergency reserve, are made, that which remains should be considered distributive profit. This concept, however, is not currently accepted. Usually the directors reserve the right to determine what percentage of the true net profit should be distributed. This practice can be justified only if you believe in the overlordship of the investor. In principle the entire true net profit should be distributed, with the investor receiving his legitimate portion thereof, in addition to the hire for the use of his money.

3. *Allocation of Profit Shares.* If the operation shows a distributive profit, all those contributing to it—whether through human effort or investment—should share proportionally according to that contribution. The formula is simple: The total payroll should be added to the investment account and the profit should be prorated dollar for dollar, creating a sort of uniform dividend on every dollar earned and every dollar invested.

The share to be received by new employees and those severing working relations during the year presents a problem. Some concerns provide a waiting period and some cancel any payments after severance. Both practices resemble penalties. It is therefore desirable that the worker share for the portion of the year during which he has made a contribution.

4. *Types of Payment of Shares.* The simplest method of payment is one bulk cash distribution when the profit shares are determined. If shares are relatively large and there is a possibility that such a lump sum distribution will affect the

economic stability of the recipient, it might be wiser to divide the shares into several payments scattered over the succeeding year. Notes may be given for the deferred payments if desired.

Some concerns may prefer to pay part in cash and apply the balance to fringe benefits, such as pensions or retirement plans. Others prefer to apply the entire shares to fringe benefit accounts.

5. Operation Under Loss Conditions. Practically every business enterprise runs into loss periods. However, if everyone shares in the profitable periods, everyone should share the burden of loss. If the

profit is shared by dollars invested and dollars earned, losses must be shared on the same basis. The hire of men and money would thus have to be reduced by the percentage that the loss bears to the total hire of all.

The adoption of a suitable profit and loss sharing plan will go a long way toward removing obstacles to successful operation. This is particularly true if it is coupled with adequate job evaluation and merit-rating plans and if the underlying purpose is genuinely to give all concerned fair treatment.

—F. W. WILLEY. *Advanced Management*, May, 1952, p. 14:3.

"OLD-TIMER" RECOGNITION: EFFECTIVE MORALE BUILDER

INDUSTRY HAS LONG REALIZED that a veteran workforce is an able and loyal workforce. "Old Timers" form a team with capable management which puts the stamp of experience on a firm's reputation. Their very presence shows that the firm has "character," that it can attract desirable men and women to its jobs, and hold them there.

Many firms make use of "Old Timer" recognition programs, which they find highly effective in building morale. Not only do these programs honor people who have been with the firm for a number of years, but they give younger employees promise of a future with the company. When they see older fellows wearing five, 10, and 15 year service pins they realize without a word being uttered that they are with an "old line" outfit that provides career opportunities.

Ideas on what recognition to give old timers vary from company to company.

The usual method for rewarding loyal service, however, is to have "Old Timers" Clubs with a 25-year eligibility requirement (it can be five years or multiples of five) and to present service pins or buttons at an annual banquet. A survey of 25 firms in the Cleveland area yielded the following information on how various companies handle the matter:

Company 1: We have a 25-Year Club. We also give an annual banquet at which pins, certificates, and watches are presented for long service. Additional gifts of \$75 savings bonds are given to those with 25 years of service.

Company 2: Our company has a 25-Year Club. There is also an annual banquet at which pins are awarded for long service. Money awards and four-week vacations are given to those with 25 years of service.

Company 3: We have a 10-Year Club

and a 25-Year Club. We also hold an annual banquet at which seniority awards are made.

Company 4: Ours is a 25-Year Club. Pins, certificates, and watches are presented at an annual banquet. We also give a retirement plaque.

Company 5: We hold an annual banquet. Pins are given for various lengths of service. A diamond pin and a watch are awarded for 50 years with the company.

Company 6: We have a 15-Year Club. We also hold an annual banquet and

present a pin for 15 years of service and a watch for 25.

Company 7: There is a Five-Year Club at our plant. We hold an annual banquet and give awards for long service.

Company 8: We hold an annual banquet for "Old Timers" and make awards for long service. There is no official "Club."

Company 9: We have a 25-Year Club. We give an annual banquet. Pins are given to workers who have completed 10 years of service. After 40 years we present a diamond pin and a gold watch.

—*For the Informed Executive* (Associated Industries of Cleveland), May 15, 1952.

Help Wanted

ONE REVOLUTION that's good for this country is the upheaval in hiring practices in American industry. Time was not long ago when a worker seeking a job was treated like some outcast in need of a helping hand. This is changing, however, and the job hunter, white-collar or factory, is now being welcomed at employment offices.

Many companies, for example, have dropped the ubiquitous "No Help Wanted" sign. At Ford, as in a growing number of companies, every job hunter receives a personal interview even if it's merely to say, "We're sorry we have no vacancies today—please try us again."

In the Cadillac plant of General Motors those waiting to be interviewed are entertained with a self-running film which shows how Cadillac cars are built.

On the entertainment level, Macy's department store in New York came up with one idea which reveals how far "humanizing" has come. The employment office during the busy season features a television set so the "waitee" will not be too bored. At Socony-Vacuum the hiring office is piped with Muzak.

About the last word in comfort is the new employment office just completed by Consolidated Edison of New York. Some features: individual desks for job seekers so that when they're filling out their applications there isn't someone looking over their shoulders; telephone booth with directories of all boroughs; easy chairs to wait in—no benches; the latest in decor. Photos of "employees on the job" give applicants an attractive picture of working conditions in the company.

Finally, scores of companies are now sending "thank you" notes to persons who have applied for jobs but could not be hired for one reason or another.

There are cynics who will say that management is going all out on the hiring front simply because of manpower shortages. Not so. There were manpower shortages during World War I and in the boom times of the early '20s, but few employers at that time had enough awareness of human relations to make job applicants feel welcome and comfortable.

—LAWRENCE STESSIN in *Forbes* 6/1/52

Coverage of Paid Sick Leave Provisions in Six Cities

FORMAL PROVISIONS providing pay in the event of absence due to illness are still not the general rule for plant workers in industry. This fact emerges from a summary comparison of the percentages of plant workers covered by such provisions in six cities surveyed recently by the Bureau of Labor Statistics: Hartford, Kansas City, Cleveland, Seattle, Richmond, and Minneapolis-St. Paul. (Both union and non-union firms are included.) The percentage of plants having no formal provision for paid sick leave ranges from 79.3 (Minneapolis-St. Paul) to 94 (Cleveland).

Plant workers in the manufacturing industries are much less frequently covered by paid sick leave rules than plant employees in public utilities, wholesale and retail trade, or the services. And within the manufacturing industries, durable goods plants less often extend this protection to workers than non-durable goods plants. In general, the length of sick leave provided varies directly with the amount of seniority earned.

It should be noted, however, that many plants which do not provide paid sick leave as such nevertheless extend somewhat similar protection to their employees through insurance benefits for non-occupational illness. This is particularly true in manufacturing where collective bargaining has substituted on a large scale for unilateral management action.

Conference on Occupational Vision

AN OUTSTANDING GROUP of industrial medical, safety, and vision experts will address the Second Annual Rutgers Occupational Vision Conference, to be held in Atlantic City on November 13 and 14. The two-day conference will feature addresses, panel discussions, and educational displays devoted to methods of conserving vision, protecting eyes against injury, and increasing industrial efficiency through better vision procedures.

Subjects to be discussed in panel sessions include: Visual Efficiency and Production, Eye Safety, Conservation of Vision, Aids for Better Seeing, and Economic Aspects of Occupational Vision. The education display will feature demonstrations of vision screening, protective eye devices, conservation methods, and industrial applications of optics and visual efficiency.

Thirteen state and national groups, including the American Management Association, are cooperating with the Rutgers University Extension Division in conducting the conference.

SPEAKING OF "OUTWORN HIRING HABITS": Reversal of traditional hostility toward women engineers would probably increase their number several hundredfold in the next few years, declares Beatrice A. Hicks, President of the Society of Woman Engineers. She points out that "of over 200,000 active engineers in the country, less than 1,500 are women." A significant proportion of the "fair sex" would accept the long training demanded of the profession, she feels, if assured of equal opportunities.

Some national concerns—notably GE and IBM—have already inaugurated the practice of seeking women for engineering positions, added Miss Hicks, who is chief engineer for a Newark control manufacturer.

—*Personnel Executives' Newsletter* (Deutsch & Shea, Inc., New York) 4/30/52

Also Recommended • • •

THE MAN ON THE ASSEMBLY LINE. By Charles R. Walker and Robert H. Guest. *Harvard Business Review* (Gallatin House, Soldiers Field, Boston 63, Mass.), May-June, 1952. The authors undertook an exploratory survey of a modern automobile assembly plant in order to define more clearly the human factors involved in assembly work. One conclusion of the survey: The average worker appeared to be oppressed by a sense of anonymity despite the fact that he was well satisfied with his rate of pay and the security of his job. The authors believe there is need for a program designed to recreate the sense, and also the reality, of a bona fide work community and that both labor and management would have to agree on measures to be taken for such a program.

PSYCHOLOGICAL TESTING FOR WORKERS: IS INDUSTRY BUYING A FAD? *Business Week* (330 West 42 Street, New York 36, N. Y.), July 19, 1952. Psychological tests to measure such facets of a man's personality as his aptitudes, intelligence, and temperament are finding increasing application in industry. Experts feel, however, that many of these tests are being used without their reliability and validity being established by research. Ways for overcoming this and other stumbling blocks to the successful use of psychological tests are discussed in this article.

DEVELOPMENTS IN FOREMAN TRAINING. *Monthly Labor Review* (Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.), July, 1952. Foreman training programs, directed toward helping the foreman do a more effective job and widening his general knowledge of economics and management problems, have become permanent features in many organizations. This article, based on recent surveys conducted by the Bureau of National Affairs and the Conference Board, discusses recent trends in such programs. Over two-thirds of the companies with formal training programs use the modified conference method, involving lectures, discussions, films, and other visual aids, one survey revealed.

HOW TO BE AN EMPLOYEE. By Peter F. Drucker. *Fortune* (9 Rockefeller Plaza, New York 20, N. Y.), May, 1952. The person who works for others for a living should make certain, says the author of this article, that he can organize and express his ideas both in writing and in speaking. Next he must make a choice, based on the requirements of his own

temperament, in four areas: (1) between secure routine work and a more challenging, though insecure, assignment; (2) between the large organization and the small; (3) between starting at the bottom of the hierarchy and beginning in a staff position outside it; and (4) between being a specialist and being an administrator.

TRY AN INCENTIVE PRODUCTION BONUS PLAN. By William R. Phelan. *The Controller* (1 East 42 Street, New York 1, N. Y.), August, 1952. Incentive production bonus plans, capable of increasing efficiency of operation and the rate of production and of reducing over-all costs, are applicable to a wide variety of operations in many industries. This article describes one such plan in operation in the typing unit of an insurance company which reduced personnel from 83 to 65 and eliminated overtime and holiday work.

BUDGETING OF PERSONNEL. By David N. Edwards. *Frontiers of Personnel Administration* (Department of Industrial Engineering, Columbia University, New York 27, N. Y.), June, 1951. This article describes the functions, problems, and economics involved in budgeting personnel in order to have on hand at any given time in the future enough, but only enough, manpower to produce the required amount of product. This involves continuous adjustment of the manpower level to standards established for the future. In making such adjustment, the author emphasizes, care must be taken to disturb as little as possible the social structure of the industrial group and the relation of the industrial enterprise to the community.

THE ADJUSTMENTS OF WAGES TO CHANGES IN THE COST OF LIVING. By Bert Zoetewij. *International Labour Review* (1825 Jefferson Place, Washington 6, D. C.), August, 1952. In periods of changing prices the adjustment of money wages to fluctuations in the cost of living usually becomes a major issue in wage negotiations. During and after both world wars this problem aroused considerable interest, and has often led to industrial friction. This article reviews the methods employed in various countries for adjusting wages to changes in the cost of living, considers some of the practical problems that arise when arrangements are made for systematically linking wages to consumer prices, and discusses certain of the advantages and disadvantages of such schemes.

PLANNING AN EFFICIENT RECORDS RETENTION-DISPOSAL PROGRAM

A FEW YEARS AGO, a very large corporation made a detailed survey of its record storage and reference habits. Here's what it found: *Ninety per cent of all requests for records on file were for those less than six months old. Only one per cent of the requests were for records more than one year old.* Other surveys have revealed that it costs about \$200 a year simply to maintain a standard four-drawer file. This includes the necessary supplies, the rental for floor space, a file clerk's salary, and the price of the file itself amortized over a 10-year period. It is clear that indiscriminate "paper saving" is an extremely wasteful practice and that anything you can do to reduce the number of active filing cabinets in your office or to improve the operating efficiency of your filing systems is going to cut costs.

You can start setting up a sound records retention-disposal plan today. The first step is to place the problem of record control in the hands of a single authority who will have power to set up a program and check to see that it is being carried out effectively.

At the outset, it is essential to require that all new records be classified at the point of creation. To be effective, this classification should be simple and quick—perhaps nothing more than a letter or a number at the top of the page indicating the time of retention within the originating department and the paper's ultimate disposition among other company records.

Having appointed a records officer and established a classification system to take care of new records, two more steps are necessary before you can actually begin to dispose of records on hand.

First, all company records will have to be counted and identified for further analysis. It is only through such an inventory that you will be able to determine the extent of duplication of records in your business, the extent to which records should or should not be decentralized, and the manner in which you will finally dispose of them. Second, the records you have on hand will have to be classified. This can be done in much the same way as for new records.

This classification will result in a decision to do one of four things with every record on file: destroy, transfer, hold in active file, or copy the record. However, there are other decisions to be made, too. You'll have to decide on how long certain records should be held and on the type of fire protection that should be given these records. The National Fire Protection Association has suggested that this decision be based on the "after-fire" value you place on any given record. For example, vital records needed to recreate a business after a fire should be given maximum fire protection. Less important but valuable papers should be given some sort of insulated protection, but not as much as vital ones.

In classifying your records you will find that about one-third of all your

records will be termed "inactive." These are the records you want to keep on hand for possible need but that you don't want to clutter up your active files.

These records can be stored in two ways. The most commonly used is the storage box—an inexpensive container which can be kept in a warehouse or other location where low-rent space is available. Another alternative is microfilming. Increasingly popular, this method combines accessible storage with space-saving, since original records may be destroyed after they are filmed.

In transferring records no longer active into their proper inactive storage housing, various systems can be used:

1. *One Period Transfer.* Once a year all records are transferred from the active files to the inactive files. For the sake of convenience, index tabs are kept in the files. One obvious disadvantage accrues: During the first few months of the new year, a lot of traffic is required to the storage files, since relatively active records go along with the deadwood.

2. *Double Period Transfer.* This is by far the most popular method since it

—*Management Methods*, Vol. 1, No. 5, p. 5:2.

eliminates the disadvantage mentioned above. With this plan, all active filing cabinets are divided into two parts. The top two drawers of a four-drawer file are used for current records. The bottom two drawers are used for records more than one year old but less than two years old. Periodically, the records in the top two drawers are put into the lower two drawers and the material in the lower two drawers is moved to storage boxes or microfilmed.

3. *Irregular Period Transfer.* This is most often used by installment houses, attorneys, and hospitals. This method presupposes that a case is "closed" at the end of a given transaction.

4. *Multiple Period Transfer.* This method is used only when it is necessary or expedient to have records handy for more than two years or two periods.

5. *Maximum and Minimum Period Transfer.* This system sets up a maximum and minimum time to keep material in the current file. It is a weeding-out process that is continuous and, because it lacks control and routine, is seldom used.

ESTABLISHING INDIVIDUAL INCENTIVES IN THE OFFICE

AN INDIVIDUAL, measured incentive plan has been successfully installed in a majority of office functions at General Controls Co., Glendale, California, manufacturers of automatic controls for industrial, domestic, aircraft, and refrigeration installations.

About a year ago the company expanded its incentive system to include office workers as well as production em-

ployees. Today, 70 per cent of the clerical help is on measured incentives, and company executives expect the total to rise to at least 85 per cent of all clerical workers.

The incentive system has been installed in such departments as Billing, Production Control, Accounting, Inventory Control, and Cost Accounting. At present, General Controls' Methods and Standards De-

partment is planning to install incentives in its own department as well as in the Sales Promotion, Shipping, and Receiving Departments. Only departments in which there is a routine handling of paper work qualify for individual measured incentives.

The advantages of being on a measured incentive plan become graphically clear when comparisons in income are made with clerical workers not on such a plan. At General Controls, the average clerk receives a base pay of \$1.26 an hour. However, the General Controls clerks on incentives will, if they meet the plant performance average, net themselves \$2.01 per hour. This works out to about \$80 a week, or \$350 a month. Clerks in comparable jobs in other plants in the Los Angeles area receive from \$215 to \$250 a month. Thus General Controls clerical employees receive about 50 per cent above the average income of their counterparts.

To install an incentive system in a department, General Controls follows this procedure:

1. The job is first analyzed for any possible improvements in methods and tooling.
2. The operation is broken down into its elements, which are listed in sequence on the timestudy form.
3. Stop-watch readings are taken by elements and averaged. Each element is speed-rated and leveled by multiplying

the average by the speed rating. (Speed rating is that process during which a timestudy engineer compares the performance of the operator under observation with the observer's own concept of proper performance.) The level time by elements is then added to arrive at a total level time.

4. Allowances are then established for fatigue, personal time, the job, and equipment (ranging roughly from 11 per cent to 20 per cent of direct time), and added to the total level time to arrive at standard minutes per piece.

5. The standard quantity of production per hour is computed by dividing the standard minutes per piece by 60 minutes to arrive at standard hours per piece, the reciprocal of which is pieces per hour.

The resulting standards are carefully checked and, when the Methods and Standards Department is satisfied with their accuracy, used to determine the individual's incentive pay.

An important consideration in this plan, which has been responsible for its success, is the company's philosophy. Sincerity of purpose—that is, a desire to improve the income of its employees and a willingness to adapt the incentive plan to specific problems and operations—has meant widespread employee acceptance of the system, as well as higher per unit production, increased company earnings, and lower costs.

—ROBERT B. WOLCOTT, JR. *Office Management and Equipment*, June, 1952, p. 20:2.

Dictating Machines Are Not Just for the Boss!

THE USE of dictating equipment need not be confined to the white-collar worker, it has been found. Recent experience in several companies has shown that "blue shirt" workers can readily adapt management equipment to shop use.

A case in point is the Gaynor News Company, of Mount Vernon, New York. As newspaper wholesalers, they had the problem of counting the previous day's returns, one by one, in order to receive credit from the publishers. It took 12 men,

working at five counting tables, anywhere from 15 to 18 hours to tabulate the weekly returns. Each table was operated by a man who counted the papers and another who posted the totals by pencil. Two "movers," whose job it was to carry bundles of newspapers to the tables, were also needed.

All that has been changed. Under the new system, each "counter" wears a chest microphone. As soon as he has rifled through a batch of papers, he simply speaks the total number, and it is recorded on a dictating machine. The dictated matter is then sent upstairs to the company offices where one girl, using a transcriber, fills out returned credit memos, tabulates the entire return on an adding machine, and submits a final report to the accounting department. The plastic dictating media are then filed in an ordinary cabinet for future reference.

As a result of this mechanization, the labor of the five men who once recorded totals has been saved, and the men have been moved to other jobs where their services were in demand. What's more, all newspapers are now counted within a 12-hour working period. Gaynor's general manager reports savings of from 25 per cent to 30 per cent.

By installing dictating equipment in its shipping room, the J. L. Hudson Company, of Detroit, Michigan, has been able to facilitate the recording of parcel post shipments. Information on packages rolling down a conveyor belt (addressee, parcel post charges, etc.) is spoken into a chest microphone. This permits a savings of about seven seconds per package, with a resultant monthly saving of 81 man-hours over the former method of writing down this information.

—*Management Methods* Vol. 1, No. 5



—*Office Management and Equipment* 8/52

IMPROVING THE EFFICIENCY OF BUSINESS FORMS

ANY FORM and any system will work. It may be slow and inefficient. It may not furnish all the necessary information or the needed control. It may waste manpower and materials. But it will work, and, as a result, forms improvement is one of the easiest projects to postpone. However, it has become well known that for every dollar spent for a form, about \$19 is being spent for writing, posting, filing, mailing, and handling it! It is obvious that forms have become one of the major operating costs of the office.

There are three areas for improving forms efficiency: (1) simplifying the system operated by the form; (2) combining the form with another to eliminate duplication; (3) redesigning the form for faster writing and handling. Let us consider these three separately.

It is impossible to devise a better system without first knowing all details of the existing one. To gather these details trace the course of each form on a process chart, making sure to write down what you actually see happening. After all the information has been recorded, place all the steps shown on the individual process charts on one horizontal symbol flow chart. The result will be a complete picture of the over-all system.

Analysis is now easy. Challenge each step with four big questions: Can this step be eliminated? Can this step be combined with another? Can the position of this step be changed advantageously? Can this step be simplified?

This leads us to the second area—combining forms. It's natural that whenever you succeed in writing two forms at the same time, you are making a saving. Any system involving two or more forms dealing with the same transaction offers, at

least theoretically, possible combinations. Other things to watch for are the amount of identical information on all forms and the method of writing.

The third area—design—has just one paramount rule which, if followed, will always result in a well designed, efficient form. The rule is, "The form must be designed for the fastest possible handling by every user of every copy." Thus good design considers the person writing the form, the person posting from it, the person filing it, and the person mailing it.

Designing the form for the writer means knowing that it is faster to type in a straight line than it is to skip and jump. Therefore make use of tabulating stops and return stops. To save space look up old forms in your files and count the number of letters and digits required for each entry to establish a maximum. It is also well to count the number of lines of information needed. Too frequently we use an 8½" x 11" sheet for an invoice when only one in a hundred invoices requires so much space. The other 99 have no more than five lines to be entered.

Next, you need to know the machine requirements. Normally, a machine spaces 10 digits to the inch horizontally and six vertically; however, not all machines do this. Count the characters on your machines and then design the form so the typist has the fewest movements or skips.

Another aid to writing a form faster can be found in the material on which it is based. Since a form is generally written from another form, you can save time by designing forms with the same sequence and location of the same information. This also applies to information which is posted from a form to other media.

Consider the filing of forms. The location of the primary and secondary file keys is important. Put the file keys where they will be prominent regardless of the style of the file.

Surprising savings can be made in mailing. In one case, it was possible to save \$15 on a thousand forms by designing the form to fit a window envelope. Also, if there is any volume, a form folded once instead of twice can result in a considerable saving.

—KENNETH E. GOODWIN. *The Office*, June, 1952, p. 53:5.

Each area discussed here—simplification, combination, design—offers countless opportunities to improve form efficiency. When you multiply the quantity of small details within every system and every form by the thousands of times a form is used, you will find you are dealing with large—and expensive—"details." Therefore, look to your forms and systems; they are more costly than you suspect.

Climbing the Ladder

MANY COMPANIES, despite their eagerness to promote from within, have comparatively haphazard ways for office employees to make known their ambitions for advancement and for management to keep track of people who are ripe for promotion. By comparison, bidding for a job is a fairly well-established plant custom. When a vacancy comes up, notice of the opening is posted and a worker who wants to progress can apply for it.

Kaiser-Frazier (Detroit, Mich.) has adapted the bidding procedure to the needs of white-collar personnel. The company has a definite system whereby its office employees can make their bids for promotion a matter of record.

The salaried worker who wants to be considered for upgrading fills out a form giving his name, department, current position, and salary, and naming the niche he next wants to occupy. He must give all the details about his education and training, as well as a brief statement about his qualifications for the job.

And the company makes sure that the filing of the form is not a mere whim. The employee must mean business. He agrees that if the promotion is offered him he will accept it—or be barred from future advancement for six months.

—*Supervisor's News Service* (Bureau of Business Practice, New London, Conn.) 7/7/52

Hot Weather Dismissal Practices

THE OFFICE EXECUTIVES ASSOCIATION of New York recently made a study of the dismissal practices of 165 companies in the metropolitan area. It was found that during 1951, 91 of these companies dismissed clerical employees early at least once, the majority of these arranging for dismissal on three unusually hot days.

Perhaps the most interesting phase of the report was the reference to a formula used by some large companies. Under this formula, the office closes early when: "One-fifth of the humidity percentage, plus the temperature, equals a specific number or factor." That factor varies with the companies using the formula, beginning at 100, 102, or 103.

The actual time of dismissal on unusually hot days varies from 3:00 to 4:00 or from one to one and one-half hours before usual closing time.

—*L.O.M.A. Bulletin* (Life Office Management Association, New York, N. Y.) 7/15/52

Also Recommended • • •

ELECTRONICS IN THE OFFICE. By David Sarnoff and John S. Coleman. *Office Management and Equipment* (212 Fifth Avenue, New York 10, N. Y.), August, 1952. This article presents two views on the role of electronics in the office: General Sarnoff feels that electronics will make possible an office where complex data will be processed and problems solved at uncanny speeds—and virtually without error. Mr. Coleman, on the other hand, feels that many problems prevent electronics from becoming the office manager's obedient tool and that to be practical we must recognize its limitations and evaluate its results in terms of its cost.

A UNIQUE METHOD FOR TEACHING OTHERS HOW TO WRITE LETTERS. By Ivor Trapolin. *The Reporter of Direct Mail Advertising* (53 Hilton Avenue, Garden City, New York), August, 1952. The author outlines a four-point method for assuring the effectiveness of business letters, which he feels should almost always make use of the sales approach, no matter what their purpose. He recommends that each letter be measured against four simple yardsticks to determine whether it will get the reader's attention, appeal to his self-interest, prove the benefits of what the writer has to offer and spur the recipient to take the desired action.

WHAT OF MARGINAL WORKERS? By R. E. Heidebrink. *Office Management and Equipment* (212 Fifth Avenue, New York 10, N. Y.), August, 1952. Office manpower shortages can be alleviated, according to this article, by using marginal workers—the very young, the inexperienced or slightly trained, and the older worker. In discussing the problems posed by the hiring and training of these workers, the author points out that slight changes in the job itself will often enable it to be filled by an unskilled worker.

BETTER MANAGEMENT THROUGH THE OFFICE. By Hugh A. Wichert. *The Office* (270 Madison Avenue, New York 16, N. Y.), July, 1952. The author discusses how better over-all management of a business can be achieved through utilizing the office to its fullest advantage. Learning not to overemphasize the service function of the office at the expense of the control function, for example, is one of the most important steps in achieving this goal.

WHAT YOU SHOULD KNOW ABOUT POSTURE SEATING. By Homer Smith. *The National Stationer* (740 Investment Building, Washington, D. C.), August, 1952. Purchase of modern posture chairs for the office staff is a worth-while investment, this article points out, since use of such chairs reduces fatigue and therefore increases production. The points to consider in their selection are discussed in this article, with particular attention given to the three types of adjustment peculiar to the true posture chair.

A PRACTICAL APPROACH TO FORMS CONTROL. By Pierson M. Grieve. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), June, 1952. This article, intended to help bridge the gap between the theory and practice of forms control, points out how effective liaison can be achieved between the forms control unit and the departments with which it deals. The author discusses the characteristics of a good forms analyst, presents a checklist for forms design and outlines the procedures that may be used to establish forms control. Centralizing the duplicating function and establishing a definite rule that no form may be reproduced or purchased without prior approval by the forms control unit are two basic steps in this procedure.

THE OFFICE is 30 years behind the factory in the application of mechanical equipment, declared William R. Mullee, professor of industrial engineering at New York University, in a recent address before the Controllers Institute. Only 15 per cent of office work is done by machines compared to the more than 90 per cent mechanization found in factories. Furthermore, clerical work has grown 350 per cent from 1900 to 1940, a rate of growth five times that of the population.

Manufacturing Management

IS YOUR SCIENTIFIC RESEARCH PROGRAM PROPERLY BALANCED?

WILLIAM W. EATON*

THE HISTORY of World War II demonstrates clearly that in order to survive in our modern world, a nation must be superior in its scientific achievements. This is equally true of today's industrial enterprise, which can continue to prosper in our fast-moving, competitive world only if it is constantly on the alert to the latest developments in electronics, metallurgy, chemistry, plastics, atomic energy and numerous other fields. Accordingly, industrial managements are conscious more than ever before of the vital importance to their companies of scientific research and development work.

This situation is reflected in the quadrupling of industrial research effort in the United States since 1940. Now truly an "industry" within industry, scientific and technical research is being conducted for commercial purposes at the rate of over a billion dollars per year. Still another billion is being spent by the government for military research, which is certain to have important effects on industry eventually.

PROPER PLANNING OF RESEARCH

There is no more convincing demonstration of the value of planning in human endeavor than the story of the invasion of Europe by the Allied forces in World War II. Here was one of the most complicated and difficult mass human undertakings of all time. On its success or failure depended the way of

life of hundreds of millions of people, and the future course of history. And clearly the most important single factor in making for the success of this critical venture was the colossal amount of time and energy that went into the intricate planning of it.

Like fighting a war, scientific research consists in meeting the unknown, and it is therefore not surprising that some of the same principles of planning are applicable. Thus, to a considerable degree the success or failure of a scientific research and development program in industry will depend on proper planning. A few of the many factors that must be carefully studied and evaluated will be discussed below.

CRITICAL FACTORS IN PLANNING RESEARCH

The most important single factor in the intelligent planning of industrial research is the financial condition of the company, as reflected by the balance sheet and earnings record. Technical research, development and engineering work is expensive and time-consuming, and continued support over a substantial period of time is necessary, or funds may be completely wasted. Where the program is starting out from scratch, results that can be rung up in the cash register usually can't be expected for three to seven years, depending upon the circumstances and the type of work undertaken. If a company is not able to support a

*Scientific Research Consultant to Management

given program for such a period of time, there will be greater chances for a better return if a smaller program is planned over a longer time. Some specific examples will be cited later to show how a program is affected by the financial condition of the company.

Another important factor in planning industrial research is a crystal-clear statement of the objectives. This often turns out to be much more difficult to formulate than it sounds. Frequently overlooked, too, is the fact that it depends to a considerable degree upon the basic policy and fundamental desires of the management. One man may want to build a better mousetrap, while another wants to find a better way of eradicating the mice. Their research programs will be entirely different.

Still another vital factor is a detached evaluation and appraisal of the consumer acceptance of the company's products. This is often very difficult to achieve objectively by those inside the company. Much more significant results can be obtained by using expert outsiders, such as market research specialists, who are skilled in gathering such data. Before planning what technical program to follow, management must face up to a cold, realistic picture of its own product line. It must have sufficient courage to accept the facts regarding the quality of its products, their cost, and possible obsolescence.

BASIC RESEARCH OBJECTIVES

For purposes of reducing the problem of research planning to its simplest terms, and fitting the program to the particular requirement of any given company, it is convenient to recognize that most experimental research and development in industry may be broken down into the

following three general classes, as to basic objective: (1) reduction of manufacturing cost, (2) improvement in existing products, and (3) development of new products.

Any particular project may have more than one objective, of course, but it is conducive to good planning to keep these three principal classes clearly in mind. And most programs will benefit by having work going on in all three categories. One common error, for example, is that of giving insufficient attention to cost-reduction work.

TIME ELEMENT

Reference is often made loosely to research projects as "short-term" or "long-term" in accordance with the estimated length of time required to produce sufficiently tangible results to turn over to the production department. These terms are vague, and mean different things to different people. It is desirable to be more specific in classifying projects as to time element. While two categories may be sufficient for a small or moderate program, for a large program involving a great many projects it is helpful to consider three classes, which can be conveniently specified as follows:

Short-term: six months to two years

Medium-term: two years to four years

Long-term: four years to eight years

Most companies that have continuing research programs have found it profitable in the long run to balance their over-all program by including projects in all three categories. In this way, the results of the research effort are likely to appear at a more uniform rate than if too large a proportion were devoted to any one class.

The effort allocated to each category must be very carefully analyzed on the basis of many factors, including those previously mentioned. For example, a company with good earnings and a satisfactory outlook for the future will stand to gain by spending a much larger portion of the research budget on long-term projects, compared to a firm with shaky finances and a product that needs immediate improvement. Generally speaking, the results of long-range research are likely to be ultimately more rewarding, but a considerable amount of capital and patience is required.

RESEARCH BALANCE SHEET

As a matter of fundamental company policy, it is important to "balance" the research program carefully, as to basic objectives and time element, and this can be done intelligently only after a careful analysis of the particular needs and circumstances of the company. Once established, it is advantageous to maintain the "balance," or to change only gradually as conditions justify.

A convenient way of representing the division of effort, so that it can be quickly comprehended and checked, is by the use of a small chart as shown in Figures 1 and 2. This chart, which is virtually self-explanatory, has been named, for want of a better term, a "Research Balance Sheet."

In this type of chart, each individual box contains the percentage of the total research effort (measured, for example, in dollars) devoted to all the projects which fall within the category described by the particular row and column. For convenience, the rows and columns are sub-totaled. Naturally the sum of all the individual box figures, as well as the sum of the sub-total figures, must equal 100%.

When a project has two or more objectives, the amount should be pro-rated in accordance with the circumstances.

One of the principal values of such a chart is that it will quickly show up an "out-of-balance" condition that may not otherwise have been suspected. As a regular management technique, it is helpful for the research director to obtain management approval of a specified allocation of effort, as shown on a Research Balance Sheet, and then to audit the program periodically in the same way to insure that the condition is maintained.

Many smaller firms do not conduct a significant amount of long-range research, as defined herein, and in such cases, the figures for long-term research may be eliminated. It goes almost without saying that because of the many exigencies of conducting industrial research, the percentages can only be considered as close approximations to an ideal condition. However, this will not affect the value of the chart materially.

Percentages of Total Research Effort

Term	Cost Reduction	Improved Products	New Products	Totals
Short	10%	10%	5%	25%
Medium	20%	5%	5%	30%
Long	10%	5%	30%	45%
Totals	40%	20%	40%	100%

FIGURE 1

RESEARCH BALANCE SHEET OF A
STABLE COMPANY WITH GOOD
COMPETITIVE POSITION

Percentages of Total Research Effort

Term	Cost Reduction	Improved Products	New Products	Totals
Short	20%	20%	10%	50%
Medium	15%	15%	5%	35%
Long	5%	5%	5%	15%
Totals	40%	40%	20%	100%

FIGURE 2

RESEARCH BALANCE SHEET OF A COMPANY WITH POOR EARNINGS AND UNCERTAIN COMPETITIVE POSITION

Illustrative of how the charts are used, Figures 1 and 2 are specific Research Balance Sheets for two companies with widely different circumstances.

Figure 1 represents a very stable company, with satisfactory competitive position. The chart shows that this company is putting a full 40 per cent of its research effort into cost reduction, probably on the theory that with a good quality product, a reduction in cost will always provide a safeguard against cutthroat competition. Since the present line of products is considered to be satisfactory, it is not surprising that only 20 per cent of the effort is devoted to product improvements. It is significant that 40 per cent is being spent on new product development, to insure against obsolescence of present lines and to provide another type of advantage to meet competition in the long pull.

Further study of Figure 1 will show that only 25 per cent of the effort is in short-range projects, 30 per cent in medium-term and 45 per cent (which is

unusually high) in long-range research. Note also that this company is placing almost all its work on new products in the long-range category, presumably on the basis that work on improved products and cost reduction will provide ample results for the foreseeable future.

Now contrast Figure 1 with Figure 2, which illustrates a company in an entirely different situation. This concern has had a poor earnings record, and at the present time is in a very uncertain competitive position. On this account the management has very wisely decided to devote 40 per cent of the research effort to improving present products, and only 20 per cent to new products. For probably somewhat different reasons than applied in Figure 1 (necessity rather than insurance) 40 per cent is devoted to cost-reduction projects. Since the present condition is poor, 50 per cent of the effort is in short-range, 35 per cent in medium-term, and only 15 per cent in long-range work. Notice also in contrast to the condition outlined in Figure 1, that half of the effort on new products is of a short-term variety, calculated to pay dividends in the near future. Other differences can be noted by a closer inspection of these two figures.

CONCLUSION

Many managements would be surprised if they spent the few minutes' time required to make up one of these Research Balance Sheets for their own scientific research and development operations. For example, it frequently happens that there is a natural drift toward too much short-term work, without anyone being aware of it. Also, as mentioned previously, in many research departments far too little emphasis is placed on cost-reduction projects.

Every management officer in charge of the research and development operations within a company is urged to try using this Research Balance Sheet technique for planning research activities and checking them regularly. In this way he can satisfy himself that the program is properly geared to the circumstances, needs

and capabilities of the enterprise. It is a good plan to request that the director of research have such a chart prepared every six months and presented to top management, together with a statement explaining the reasoning behind the division of effort.

"Tickets" Reduce Accidents Among In-Plant Vehicles

THE "HOT-ROD" DRIVERS of in-plant power trucks and other vehicles can cause just as serious and costly accidents as any other species of speed demon. Accordingly, in the interests of plant safety, Marathon Corporation has authorized its foremen to give "tickets" to all violators of power-truck driving rules.

Each operator is issued a wallet-size license. On the back is a record of accidents and violations. Every foreman has a right to stop any operator and hand him a "ticket." The violation or accident is then recorded on the back of the license. Three violations and the driver is subject to severe discipline, up to and including discharge.

—*Employee Relations Bulletin* (National Foremen's Institute, Inc.) Report No. 303

Machine Tools: Productivity Up

WORKER TIME PER UNIT in the production of machine tools dropped an average of 3 per cent from 1949 to 1950, according to figures recently released by the Bureau of Labor Statistics. Greater total output was the prime factor, with dollar volume growing from \$241 million in 1949 to \$303 million in 1950. An even greater drop in manhours per unit was prevented by the shortage of skilled labor and the required training of new men.

Indirect labor dropped 4.5 per cent while direct labor per unit dipped 2.5 per cent. The reduction in direct labor resulted from many small improvements in methods and larger lot production. Some plants began to employ greater subdivision and thus increased productivity.

In 1950, the proportion of indirect to total labor varied from under 10 per cent to over 60 per cent in the industry. Half the firms used from 30 to 50 per cent indirect labor.

—*Iron Age* 8/7/52

AMA FALL MANUFACTURING CONFERENCE

The Fall Manufacturing Conference of the American Management Association will be held Wednesday-Friday, December 3-5, at the Hotel Statler, Cleveland.

REVIEW PURCHASING NOW

MANY PURCHASING EXECUTIVES are enjoying their first breathing spell in months. Except for steel and a few miscellaneous items, material shortages are pretty well licked. Barring a new war threat, or major strikes, the coming months look good, both sales- and supply-wise.

This period offers an excellent opportunity to review purchasing practices for improvements and cost savings and to root out any inefficiencies which have sprouted in the past months. The following checklist, based on the experience of companies that have undertaken such a review, highlights major areas for cost reduction:

1. *Check the desirability of using substitute materials.* Changes in price and supply outlook for key items may warrant a switch to new alternates now or in coming months. And the greater availability of many materials means a wider choice of substitutes. The opportunities are widespread. One manufacturer, for example, substituted zinc die casting for carbon steel bar stock for a bearing closure nut, saving eight tons of steel for other use, and reducing the cost of the item 33 per cent.

Also, look to your shipping room for hidden potential savings. One firm saved \$175 per carload by changing from yellow pine for crating to lighter and cheaper western pine.

2. *Investigate the advantages of changes in design or specifications.* To guard against metal shortages, for example, explore the possibility of using modified specifications or designs to satisfy your engineering requirements. Urge engineering to specify the same kind of raw

material for as many parts as practicable on a particular product. This will not only permit you to buy in larger quantity but may simplify such manufacturing operations as welding. Also, consult your suppliers for new possibilities.

If you buy adjacent parts from the same supplier, have them pre-assembled whenever it is practical to do so. In addition to its other benefits, pre-assembly will increase the size of your order, giving you volume discounts and cutting transportation costs.

3. *Standardizing materials to keep inventories down.* Less "reserve" stock is needed under standardization, and you can buy in larger quantity, thus taking advantage of bulk discounts. Standardization also makes interchangeability of parts possible, reduces warehouse costs and simplifies inventory control. Yet surprisingly, many companies are missing out on these benefits because they have never made a serious study of overlapping and duplications among materials.

4. *Determine the optimum number of suppliers for your firm.* Under the pressure of shortages and other abnormal conditions since Korea many companies have spread their supply contracts much more widely than usual. Thus in most cases the question boils down to how much of a cut in the list of vendors is necessary to eliminate inefficiencies.

Judging by the experience of many companies after World War II, these points should be checked to safeguard your position and reputation in the trade and to realign suppliers to the greatest long-run advantage for your company:

- a. *Is your source at a distant location?* Can you get the same items nearer home,

with a corresponding reduction in freight costs, lead time, and reserve stock?

b. Is your current supplier in a high-cost critical labor area? One large manufacturer saved 27 cents per unit on a \$1.14 item (total saving \$48,000 for the year) by changing to a source in an "easy" labor area.

c. Is a competitive vendor better equipped to make the item? This is particularly important on items specially made to your design. A large firm farmed out production of a special valve plug, at a unit price of \$16.73. A better equipped vendor was able to reduce the price to \$11.95, saving the firm almost \$10,000 per year.

d. Should you farm out some of the

work now done in your own shops? Can you take back jobs you subcontracted when materials and capacity were short? Arrangements made a year or two ago may no longer be profitable or advantageous under current prices, present sales outlook, and other factors that influenced your original decision.

If you decide to deal with fewer supply sources, be sure to work out credit arrangements in advance. Some companies have found when they gave their business to one large supplier that less credit was available than they'd been getting from the smaller companies which the new supplier replaced. Keep this angle in mind to avoid any added strain on working capital.

—*Operations Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.), August 26, 1952, p. 61:3.

Picture Quiz on Safety

A PICTORIAL SAFETY TEST is used to find out how much the employees at Revere Copper & Brass Company know about safety. The booklet contains 162 pictures and the employee looking them over must tell whether the practices shown are safe or unsafe. Fred Smith, the company's supervisor of training and testing, says the test has proved useful as a training device. "After taking the test, the employee is curious about his score and where he made his mistakes. The booklet is returned to him and he checks his answers against the company's safety rule book. Since the introduction of the test in 1946, our accident frequency rate has been reduced from 12.9 to 6.5." Because of the success of the copyrighted test and the attention it has attracted, Revere makes it available to other industries through Science Research Associates, 57 W. Grand Avenue, Chicago 10, Illinois.

—*The Foreman's Letter* (National Foremen's Institute) 9/2/52

140,000 MEN WORKING A FULL YEAR: That is what 1952 accident-loss will be equal to in manpower if present rate of accidents in agriculture and industry continues, according to the National Labor-Management Manpower Policy Committee. Approximately 16,000 men and women in all occupations lost their lives and 2,000,000 others suffered lost-time injuries in 1951, the Committee reports, with total accidents 12 per cent higher than in 1949. The Committee found that more than 70 per cent of occupational accidents occur at companies without organized safety programs.

—*Personnel Executive's Newsletter* (Deutsch & Shea, Inc.) Vol. II, No. 17

PREVENTIVE MAINTENANCE—THE QUANTITATIVE APPROACH

C. A. TURNER

TOO OFTEN, in its efforts to reduce the cost of corrective maintenance, management arbitrarily establishes rigid schedules for accomplishing specific preventive maintenance tasks.¹ Such schedules often call for the inspection of certain types of industrial equipment at specific, stated time intervals, without regard to use, loads, location, age, expense, or other variables. The kind of inspection to be made is left more or less to the judgment of the man making it.

In times of financial stress, when expenses are often cut to the bone, most maintenance programs—particularly preventive programs—are subject to close scrutiny. When a preventive maintenance program is curtailed and no embarrassing penalties immediately result, it is often hastily concluded that the preventive program must have been thorough to the point of extravagance.² If, after careful observation over a sufficiently long time interval, the consequences of curtailment are still not embarrassing, it is reasonably certain that some curtailment was, in fact, desirable. However, none of us can afford to wait until curtailment is necessary in order to determine whether our maintenance programs are in proper balance.

The important question is: How far

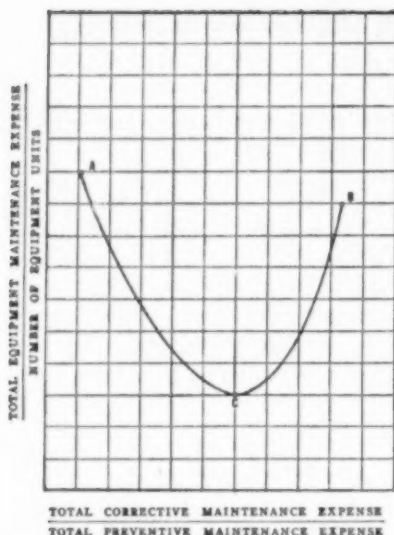
can we go with preventive maintenance, and at what stage do we reach a point of diminishing returns? Or, to put it differently, how can we tell whether we have too much preventive maintenance?

Two general principles are commonly advanced for determining maintenance requirements: (1) Total equipment maintenance expense should be a minimum consistent with production and service; and (2) equipment maintenance expense should reflect a "balance" between preventive maintenance and corrective maintenance. To these should be added the rule: Under no circumstances should equipment maintenance expense reach a point of diminishing returns with regard to either type of maintenance—preventive or corrective. But how can we tell whether our maintenance program is in balance? The best solution is to test it.

A careful selection of variables pertinent to maintenance expense, when plotted on cross-section paper will suggest, if not actually determine, the solution of our problem. Naturally, one variable should be total equipment maintenance per unit of equipment; the other should be a readily available variable that depends on frequency rate of inspections and overhauls—e.g., frequency rate in terms of total number of standardized inspector-repair treatments per unit of time; frequency of inspections per unit of equipment; etc. The chart on p. 678 is based on two variables pertinent to our problem: Total Equipment Maintenance Expense per Unit of Equipment, and the ratio between Total Corrective Maintenance Expense and Total Preventive Maintenance Expense (a ratio that

¹ Preventive maintenance (inspections) involves the expense of inspecting, testing and repairing equipment on off-shift periods, during working hours when equipment must be taken out of service or conveniently scheduled for removal from service for repairs as needed. Corrective maintenance involves the expense of repairing equipment at the time of equipment failures that impair production.

² We tend to overlook the fact that if a preventive program was soundly developed there is bound to be a time-lag between its curtailment and any adverse reaction on equipment performance and maintenance expense.



varies with frequency of inspections and associated repairs). And while the former depends on the latter, the ratio is independent of the unit expense factor.

Assuming preventive maintenance to be in order for the situation being considered, we see that when preventive maintenance is heavy—inordinately so—in comparison with corrective maintenance expense, we are likely to obtain a point on our chart such as "A" (a point of high inspection frequency and perhaps a minimum number of breakdowns). On the other hand, when no preventive work is done, expense per unit is likely to be high at the other end of the scale, e.g., point "B".

Now, because preventive maintenance does pay off, we should expect expense per unit to decrease as inspections (and resulting repairs) increase from an absurdly low to a reasonably high frequency. Having determined now to find out where we stand, our next step is to

create conditions for collecting reliable data. In other words we must experiment to find the effect of changed frequencies on expense per unit. This means operating one group of equipment as a control group and varying the frequency of the other equipment. Needless to say, all groups, despite frequencies, should carry the same loads and be subject to the same repair standards. Thus we develop data for additional points on our graph and attempt to approach a critical point either directly by experiment or by interpolating or extrapolating the data. Such a point will be in the neighborhood of point "C"—a point where the slope of the curve changes from a positive to a negative value or vice versa. This point represents the ideal frequency and, accordingly, can be used as a guide. In practice, point "C" may not actually materialize, but each observation tells us whether we are moving in the correct direction with respect to points "A" and "B". Each new observation helps to guide us with regard to further modifications of frequency.

Since the results of such a test depend upon exact data, it must be gathered and recorded with extreme care. Moreover, supervision must understand the program and wholeheartedly support it. Finally, sufficient time must elapse between the changing of frequencies to allow the equipment "to settle down" to its new treatment before collecting additional data. Here supervision must be alert to remove all temptation on the part of inspectors and their crews to make inspections more frequently than prescribed. The resulting spare manhours of inspection crews, if any, should be applied elsewhere.

Our accounting practices should readily

permit us to summarize charges to the equipment maintenance expense account under two sub-accounts—namely, charges to corrective maintenance and charges to preventive maintenance. These should include:

1. Costs (expenses) for labor, material, incidentals, and all directly applied supervision expense.
2. Costs (in dollars) for lost time of productive workers due to breakdowns for any cause.

However conclusive the results of the above calculations may be, we must know how our equipment is performing and whether this performance in any way affects our product or service to our cus-

tomers. To this end, we should collect all evidence that may be appropriate to this aspect of our study. Such information will serve as a warning if we are erring in our changes of frequency. Service information and data with regard to equipment performance will usually prove valuable when we come to the final interpretations of the quantitative aspects of our problem.

Despite the merits of rule-of-thumb reasoning, it sometimes pays to review many types of plant operations from a quantitative standpoint. Such an approach is particularly desirable in determining the most appropriate balance between preventive and corrective maintenance.

Radio's Place in Plant Protection

MANY LARGE INDUSTRIAL PLANTS are today swinging toward portable two-way radio-telephone as the fastest, most dependable method of coordinating the activities of their security patrols in the event of break-ins or other emergencies.

In one such plant a lone officer, patrolling a desolate section of the company's decentralized property, came unexpectedly upon a group of four men cutting their way through the wire fence. If he had not been equipped with portable two-way radio, he would have had to challenge the men singlehanded or waste precious minutes locating a telephone and summoning assistance. In this case, however, the officer simply lifted the handset of his portable radiotelephone, spoke a few quiet words, and within 30 seconds reinforcements were closing in on either side of the fence.

"Walkie-Talkie" units have proved especially valuable in plants on defense work. It is common knowledge that, even in peacetime, subversive activities and sabotage in these plants are not uncommon. Coincident with the threat of sabotage is the accompanying threat of fire, explosion and the resultant breakdown of normal communications systems such as telephones and electrically operated signal systems. Coordination of the activities of security guards, fire fighters and police is vital in such emergencies. With two-way "walkie-talkie" units at their disposal, instant communications are available regardless of power failures. Radiophone-to-radiophone and radiophone-to-base station contact gives adequate coverage of the scene of operations.

—AL JONES in *Plant Administration* 8/52

CHEMICAL DECADE: Chemical output could rise as much as 75 per cent between 1951 and 1961, compared with an estimated 19 per cent rise in industrial production, *Chemical Engineering* (McGraw-Hill publication) estimates.

Also Recommended • • •

AN AUTOMATIC MACHINE TOOL. By William Pease. *Scientific American* (2 West 43 Street, New York 36, N. Y.), September, 1952. Until recently it had not been feasible to employ automatic machinery for other than mass-production operations, such as the making of automobile parts. New developments in feedback control and machine computation, however, are now opening the door to automatization of machine tools, built to produce a variety of parts in relatively small quantities. One example of such automatization can be found in a milling machine, described in this article, which converts information on punched tape into the contours of a finished part.

WHAT TO LOOK FOR IN AIR CONDITIONING YOUR PLANT. By A. M. Watkins. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), August, 1952. Proper air conditioning is an investment that pays off in increased production and plant efficiency. The various types of air conditioning equipment available and the service and maintenance required by each are discussed in this article. The author emphasizes that if the engineer or architect is to set up a system best suited to the plant's needs, he must be supplied with accurate plans and space measurements and information on heat-producing machinery, lighting, and the number of employees.

CHOOSING NEW MACHINERY AND EQUIPMENT. By D. M. Pattison. *Mechanical Engineering* (29 West 39th Street, New York 18, N. Y.), September, 1952. A well-administered equipment analysis program is a necessity if replacement needs are to be met promptly and economically. In this article the author describes the workings of a formula used by his company in determining replacement needs and illustrates, through charts and graphs, the application of this formula to three specific problems.

DO FOREIGN MACHINE TOOLS MENACE U. S. BUILDERS' MARKETS? By Max Leach. *The Iron Age* (100 East 42 Street, New York 1, N. Y.), June 19, 1952. In the competitive fight against a revitalized European machine tool industry, the dice are loaded against U. S. machine tool builders, the author feels. Factors beyond the machine industry's control, such as the lower prices at which foreign suppliers can make tools available, prevent American industry from meeting the increas-

ingly serious invasion of its markets. The author feels that our government should step in and, if necessary, impose higher tariffs to enable American machine tool manufacturers to compete with foreign producers.

MILITARY PACKAGING REORGANIZED. By Heinz H. Loeffler. *Modern Packaging* (575 Madison Avenue, New York 22, N. Y.), August, 1952. The origins and functions of the new Packaging Division of the Munitions Board Standards Agency, aimed at improving liaison with industry and centralizing supervision over the packaging branches of all three Armed Services, are described in this article. Establishment of this central agency eliminates the necessity of canvassing numerous government offices on questions regarding specifications and standards—offices which still might not be able to give final assurance that their decisions would not be questioned by some other, possibly equally qualified, military authority.

PLANTWIDE AIR POLLUTION CONTROL. By R. J. Jenny. *Modern Sanitation* (855 Avenue of the Americas), May, 1952. With the growing concentration of population and industry, air pollution has become increasingly serious. This article describes the installations used by one chemical company to prevent atmospheric pollution and also outlines the steps that a company facing this problem can take to insure good community and employee relations. Since air pollution abatement is uneconomical, the author maintains that it should be resorted to only after all other attempts to decrease pollution by changing the process have failed.

QUALITY PRODUCTION WITH SAFETY. By Fred O. Soughton. *Industrial Canada* (Montreal Trust Building, 67 Yonge Street, Toronto 1, Canada), June, 1952. As a result of a safety program in effect at the Long Lac Pulp and Paper Company (Canada) the frequency rate of plant accidents was reduced 41 per cent between 1950 and 1951. Showmanship in selling safety to employees, the author points out, was one of the principal reasons for the program's success. Striking posters, three dimensional signs, safety contests, and daily letters, addressed to supervisors, containing quality and production information along with a safety message were among the "selling" devices used.

Marketing Management

HELP WANTED: SALES

SIXTY-FIVE sales executives who were interviewed recently by *Fortune* had some interesting comments to make on their salesmen. Most of them went something like this: "Frankly, only one out of 25 of my men puts in a fair day's work." . . . "I could double my business if I just had the right men, but these characters I've got now are fat and happy just servicing accounts."

As in quality, so in quantity. The entire U. S. sales force has remained so static that the increase in national production has outstripped it three to one. Why, in the land of his birth, has the Great American Salesman apparently vanished?

Recent economic history does explain a great part of the decline. But there are other trends in American life that have contributed to the depreciation of salesmanship, and to grapple with the problem we must look at them and the questions they in turn provoke.

One such trend is the increasing emphasis on "scientific selling." Where formerly the salesman was fancied as an artist and an individualist who operated best left to his own devices, his activities have been brought more and more under home-office control. He must become more of a specialist than ever before, and the bulk of his training is often concentrated less on salesmanship *per se* than on the engineering of the product, the company organization and policies. He has become, in a word, a company man.

Another significant change is seen in the fact that less than a quarter of the U. S. sales force is on commission. Ac-

cording to a survey conducted by the Harvard Business School and the National Sales Executives, Inc., 20 per cent of the sales forces covered were paid on a flat salary basis, with 56 per cent on a salary-plus incentive plan. Furthermore, under these salary-plus plans, roughly 75 per cent of the income is fixed—the bonuses and extra incentives rarely adding more than 25 per cent to the salesman's total compensation.

How well are salesmen paid on a salary as compared to a commission basis? To get a rough idea *Fortune* selected a cross section of U. S. corporations and made a comparison of their salesmen's compensation. Not unexpectedly, those of the large companies were primarily on a salary basis; those of the small ones on a commission basis. But when the companies were ranked in order of the size of the salesmen's take-home pay, the pattern that became evident was so amazing that the figures were rechecked. Salesmen in the small corporations averaged half again as much in earnings as those who worked for large ones.

The new generation of salesmen are well aware that salary plans carry a ceiling. It is not so much the ceiling, however, as the floor that concerns them, and the security and fringe benefits of the large organization's compensation look very solid indeed. But the question naturally arises: Does a fixed-income program tend to screen out the more dynamic individuals? Significantly, of the sales managers interviewed by *Fortune*, those who appeared to have the least trouble getting high performance out of their

salesmen were in most cases with medium or small corporations leaning heavily on commissions.

More dollars in incentive pay apparently produce more signatures in the salesman's order book. But this only begs a further question. Is this the most effective use of the sales dollar?

The vacuum in persuasion left by the decline of the salesman has put a premium on "pre-selling" the customer, and the effectiveness with which advertising has done this in the last few years has even further depreciated the role of personal selling. Merchandising, according to one line of thought, is replacing salesmanship.

The conclusion is in error. Salesmanship, in the basic sense of the word, is a person moving goods by persuading another person of his need. Merchandising, on the other hand, moves goods for which the need has already been demonstrated. The two functions overlap, but the basic distinction between them is tremendously important.

Why are many managements failing to recognize this distinction? "The trouble is," says one top sales executive, "too many accounting- and comptroller-minded people are running the show; and they completely fail to understand the relationship between sales investment and volume. They don't mind putting hundreds of thousands into a new plant—that shows up on the balance sheet. But the minute earnings drop off, they start cutting down the sales budget."

It is time, many sales managers concede, that they concentrated less on the

—*Fortune*, May, 1952, p. 100:9.

day-to-day details and got busy on the internal job of selling selling to management. They have uphill sledding ahead. The optimism so frequently voiced over the trend in management toward more top-management positions being filled from sales has little basis in fact. According to a *Fortune* survey of 82 corporations, there has been no perceptible shift since 1935 in the number of company presidents, or heirs apparent, with actual sales backgrounds. Further, there is evidence that the growing bias against the salesman to be found in the public has, in somewhat more subtle form, touched management as well.

How do you sell selling anyway? To many salesmen the great hope lies in the "professionalization" of selling. In some respects the trend might help the prestige of selling. But it is fair to raise the question here whether in the long run "professionalization" will not play into the hands of the very trend it is supposed to combat. Overemphasis on the technical aspects may soften the old "drummer" stereotype, but it gives little hint of the dynamic or creative function of the good salesman.

"Attempts to make selling a profession," says Harvard's Professor Harry Tosdal, "are somewhat premature. There is still no substitute for plain hard selling, and all the appurtenances—market research and the like—are nothing but tools. They may seem to have more dignity, but they are not selling; they are intended to make the main stream of the selling effort flow more directly. The sooner we realize this, the healthier for all concerned."

THE SHOEMAKER was explaining to a complaining customer the reason for the poor quality of his soles. "All the good leather," he said, "is going into steaks."

—*The Locomotive*

THE MIDDLE-AGED MARKET IS EXPANDING

FOR MANY YEARS it has been considered good marketing strategy to pitch advertising appeals to the young market. Though this policy remains good strategy, marketers should not overlook population age facts that show the growing importance of older groups within the market.

In the age group 35 to 64 years old, there are now 51,700,000 men and women, more than one-third of the population. They comprise 30,000,000 employed civilian workers of both sexes, or about 55 per cent of the entire labor force over 15 years old. In addition, the span of life has lengthened; life expectancy for the middle-aged is now several years more than it was even 10 years ago. They remain customers longer.

To a marketing man, however, these statistics of age levels, though important, are not as significant as the ability to buy. In terms of assured income, the picture for the middle-aged is really bright. Many millions of men and women have guaranteed incomes as long as they live from such relatively new sources as these:

Social Security. Over 3,000,000 adults are now old-age and survivor beneficiaries of Social Security. Since the Act is only 15 years old, and millions of new people were included in the broadened coverage of 1951, the number of beneficiaries will increase rapidly in later years as larger numbers of workers reach retirement age.

Life insurance annuities. In 1950, there were 3,650,000 annuities in force, representing a potential annual income of \$1,280,000,000. Of these, 737,000 annuities are now paying \$296,000,000 per year. The number of annuities now paying has nearly doubled in the past 10 years, and it may double again in the next 10 years

as younger workers reach the beneficiary years.

Private pension plans. In mid-1950 there were 11,000 pension plans covering 2,775,000 persons in force with life insurance companies. There are many other pension plans, not involving life insurance companies. The number of workers being covered by pension plans is steadily increasing as new labor contracts are negotiated, usually including pension stipulations.

In addition to the ever-increasing group of those benefiting from guaranteed incomes, there is an especially important 40-to-60 year-old group with way-above-average income—the cream of the middle-aged market. This group includes many who have done so good a job that they have reached administrative or supervisory rank and, as a result, earn incomes well above those of younger workers.

How can this ever-growing market be reached?

Many firms have more older than younger customers for no better reason than that they have been in business a long time and their brand names are household standards. Conversely, many of these older brands are surprisingly little known to younger people. Neither of these situations is as it should be. The ideal brand standing is a well balanced market that comprises all ages of customers. Though there are, of course, certain products that are suitable only for the young, there are far more that are suitable to all ages and whose advertising campaigns could be profitably addressed to the middle-aged. Typifying such markets are medicinal products; cosmetics; toiletries for men and women; and most of the food field, including special dietary

foods for health and weight improvement. It has even been rumored that some baby foods are good for invalids and old people.

Advertising media of various types can be easily selected to reach any age group desired. However, the copy and merchandising approaches of special interest to the middle-aged and elderly require more study than has been given the problem so far. Even when these approaches are formulated, who is to write the copy so that it rings with true sincerity? Most copy writers are young, full of ideas and energy, and prepared to write advertising addressed only to young men and women, whose desires and difficulties they understand.

Perhaps this relatively new type of writing designed to appeal to the already

large, ever-expanding, and able-to-buy middle-aged market is a challenge to the skill, vision, and experience of the older writers in agencies. Perhaps we are heading for an era when advertising in its creative phases is no longer a profession for young talent. Just as many businesses are learning to appreciate the plus-40 workers, advertising executives may come to the conclusion that older copywriters have a special field where their long seasoning is a well appreciated asset.

Whatever the solution to this particular problem, more attention must be given to the expanding middle-aged market. It is about time for firms to recognize that going after these customers is not only sound but the surest way to make sales at costs that are not prohibitive.

—FRANK R. COUTANT. *Printers' Ink*, May 9, 1952, p. 37:3.

Sales Inquiries Pay Off, Survey Shows

IN THE FINAL ANALYSIS, the main reason most people advertise is to increase sales. And the question, "Did it produce sales?" is the toughest test any advertising—or any advertising medium—can undergo.

One attempt to evaluate advertising sales-wise was recently made by The Penton Publishing Company, which traced back, periodically all the inquiries made in a typical month to advertisements in its publication, *New Equipment Digest*. Each inquirer was mailed a letter listing the products about which he had asked and was requested to indicate what action had followed. Were any of the products bought? Were purchases still under consideration?

Here's what the study revealed:

Out of approximately 6,000 replies, a total of 8,917 sales had either been actually completed or were still pending at the time the study was closed. Some 2,488 product inquiries had turned into sales, and 6,429 sales were pending.

Over 67 per cent of the plant officials who inquired had bought or had purchases pending on one or more products. Approximately 50 per cent of the individual product inquiries had either resulted in a purchase or the purchase was still pending.

The survey also showed that most purchases were the result of conferences between men in the plant, with recommendations approved by a variety of plant officials. It was further found that plant operation and maintenance men were responsible for 1,000 sales; engineering and design personnel for 804 sales; management men for 420 sales and purchasing agents, strangely, accounted for the least of all—154 sales.

The complete survey is reported in a 24-page illustrated booklet, which the company will make available on request.

—*Tide* 6/20/52

BUILD SALES AT THE POINT-OF-PURCHASE

ARE YOU WASTING MONEY on point-of-purchase advertising material? Consumer goods manufacturers spend over a half-billion dollars every year for such advertising, but a considerable amount of this money goes down the drain because these two key facts are often overlooked:

First, dealers have become much more selective about the material furnished by manufacturers. Cost per foot of store space has risen sharply, and the day is gone when merchants use displays simply because they are free. Second, many manufacturers forget that usually the effectiveness of a P-O-P display depends on how well the consumer has been preconditioned by other advertising.

To find out what the retailer wants and will use a study was made recently of successful point-of-purchase programs and those that failed. The following roundup of conclusions and ideas should help manufacturers analyze their own programs for unproductive costs and for hidden sales potential.

The study turned up the fact that dealers throw away up to 70 per cent of costly displays supplied by manufacturers. Why?

They are unsuited to dealer needs. The display does not tie in with store requirements or plans. To be successful a display should be flexible enough in layout, design, art, and copy to allow the retailer to adapt it to his own style. Stress the merchandise and the local store, rather than your company.

Many displays lack salespower. A good display is an extra salesman to your dealer, especially valuable in self-service or semi-self-service operations. But space

is limited, so the message must be simple. Tell the story of your product quickly: what it is; how to use it. Invite inspection—if possible, let the customer sample the item or work it. And don't forget the price tag if your product is a fast-moving item or is sold under fair-trade.

Many displays lack compelling consumer interest. Dealers are flooded with P-O-P displays, and there is tough competition for a spot on the selling floor, much less a really desirable location. To improve its chances, your display must have compelling consumer interest: color, light and motion, humor, unusual shape or material, self-service or consumer-actuated devices.

What, specifically, can be done to arouse consumer interest and to give the display salespower? The following display ideas have been found successful by many companies:

Show the product in use. A household clothes hamper, designed to hang on doors, was mounted on a 2-foot panel and displayed with illustrated instructions so that shoppers could see immediately how the self-emptying feature worked.

Let the customer try it. Sales of door locks rose 200 per cent for a hardware dealer when a line of locks mounted on small hinged "doors" was displayed. Customers sold themselves by working the locks and doors.

Show your entire line. Such displays provide incentive for the dealer to carry and sell your complete line. If possible, design the display to provide its own selling space to take the pressure off the store's shelves and counters.

Set up a demonstration. A vacuum cleaner manufacturer provides a self-contained, small-area setup which it claims boosts sales ninefold. The salesmen's 12-point demonstration is outlined on the backdrop, where attachments are mounted. A small carpet in front of the panel rounds out the display area.

Simplify bulky product handling. Window screening moved out of the housewares basement when a manufacturer developed a floor display unit which dispenses screening from hanging rolls, and measures and cuts it to length. Despite a dealer cost of \$20 (70 per cent of the cost), 6,000 of these units are in use.

How can a manufacturer determine in advance if his displays will be effective sales-builders? What returns can dealers expect in terms of profits? Will your dealers find your material acceptable? If you aren't armed with the answers your displays will be wasted more often than not. Here are some of the practical ways of getting the basic information:

1. Select two comparable stores, with similar characteristics as to size, neighborhood, and customer buying habits. Place different displays of your product in each,

at similar spots in the store, and compare sales daily and weekly for several weeks.

2. Use written questionnaires to sound out dealer sentiment, preferences, and opinions.

3. General Foods Corp. uses the following program to eliminate the guesswork: Its salesmen are equipped with specially-prepared IBM forms for coded descriptions of (a) displays in the store; (b) dealers' display preferences; (c) dealer identification. All cards are tabulated and interpreted at the home office, which then has a line on the type of displays to prepare, in what quantities, and where to distribute them.

Pre-testing dealer acceptance, however, doesn't insure actual use of your material. Successful P-O-P advertisers either train salesmen to help dealers set up the material, or they use outside companies which specialize in this field. Another way to avoid wasting material is to send it only to those dealers who order a specified amount of merchandise. Finally, it is important to remember that displays are more likely to be used if they accompany the goods than if shipped separately.

—*Distribution Report* (Research Institute of America Inc., 292 Madison Avenue, New York 17, N. Y.), June 10, 1952.

PREMIUMS PUT MORE WANT IN YOUR WARES

IF YOU can't compete in dollars with some of the huge promotional campaigns being sponsored by many companies today, or simply want to improve your selling strategy, you might try giving the customer more tangible value for his money—such as premiums. Like many other marketers, you may find that, in

order to receive sales and steady customers, it's blessed to give.

What kinds of premiums do people prefer? The 1951 leaders among types of premiums, by frequency of offering were: (1) games, toys, and sporting goods; (2) general kitchenware; and (3) cutlery. Following them were books and

booklets, dishes and bowls, tumblers, jewelry, plastic-film items, silverware, seeds and bulbs, and wearing apparel. However, the range of premiums generally offered is much wider, covering some 460 different types and embracing thousands of products.

Who are the major premium receivers? Eighty per cent of all current offers are to women. And premiums of personal appeal to both women and men outrank premiums for children. In addition, many premiums are designed to appeal both to individuals and families—radio and TV sets, for example.

Premiums serve to stimulate not only consumers but retailers and salesmen. Thus retailers are being reached today by some 68 types of premiums for store use (ranging from aprons, baskets, and money changers to hand trucks, coffee urns and paper weights). And merchants, being people, get their share of consumer items too.

Here are some general conclusions about premium use, based on the experience of advertisers and consultants, which may be helpful to firms considering their first invasion of this medium:

1. *What kind of premiums?* The choice is wide. Though news interest helps, it should lie in the wide appeal of the products, their usefulness and value, and not—for most adult, mass markets—in too-tricky gadgets or items of group, seasonal, or style appeal.

2. *Give readily-recognized value.* Products as premiums must be better values than the same products as merchandise. Your self-liquidating price on them should not be more than half their regular retail price.

3. *Should the premium be "appropriate" to the product?* Some experts use the words "adaptable" or "related"

instead of "appropriate." In any case, premiumists point out that appropriateness of premiums doesn't matter, provided people want them.

4. *What price premiums?* Of recent years, two convictions about premium prices and payments have gone by the board. One is, or was, that people wouldn't bother to send in two coins; the other, that the premium should always cost the customer less than the product.

But even before World War II, one specialist at Charles P. Holland Co., said, "We handled more two-coin than one coin premium offers. . . . Our biggest deal was a locket that pulled 1.4 million at 15 cents."

As for the second, the Peter Paul 10-cent candy bar is doing fine with an offer of nine picture post cards for 25 cents.

According to one authority on premium use, the most frequent cash amounts in self-liquidating offers in 1951 were 25 cents and then 50 cents.

5. *Make your premium offers self-liquidating.* In addition to covering all costs of premium buying, handling, and delivery, self-liquidation includes a small percentage for "grief" or contingencies, such as loss or breakage. Experienced premium users today limit their "grief" allowance to about 2 per cent.

6. *Use easy-to-handle premiums.* Heavy, bulky, or breakable items may create customer ill will and otherwise intensify your "grief."

7. *Know your sources of supply.* If possible, get and hold exclusive sources—at least for your industry. Get an option for an additional 30 to 60 days since demand may start slowly, and then mushroom and stay high for months. An option may also help to protect you against

rising prices, as well as keep you from being scooped on your own premium.

8. *Don't discount practical or "work" premiums.* Consumers will take premiums that help them to make something—such as patterns and materials for dresses. Recipe books are desirable, too.

9. *Kids help to change family buying habits.* They're just as premium-conscious as ever. Though some of them have become space cadets in rocket ships, hardy premium perennials of yesteryear—signed photos of baseball stars, for example—are still blooming.

10. *Get your salesmen and dealers into the act.* Retailers can make the "indirect" response to premium offers greater than the direct. Reporting on a study of 1,500 special promotions in the food industry in the first half of 1951, Elihu Robinson, promotion director of Topics Publishing Co., cited "point-of-sale-ties as high as 22 to 31 per cent of grocers called on, and speedup of wholesaler turnover as high as 46 per cent." One fast-rising meat product doubled sales in the promotion period. "Yet only 5 per cent of the increase could be attributed to write-ins for premiums."

—LAWRENCE M. HUGHES. *Sales Management*, June 15, 1952, p. 60:6.

11. *Test your premiums.* Experienced premium users seek to determine demand beforehand. Some try them out on representative consumers across the country. Most test in a few markets before offering them widely. Nearly all do comparison shopping to make sure they're giving better values as premiums than consumers could buy as merchandise. And all of them try not to overbuy.

12. *Get guidance.* In addition to several large nation-wide organizations which handle premium promotions and conduct research on premium use, scores of premium merchandising specialists stand ready to help. Advertising agencies, too, are developing experts in premiums and sampling.

Experience applied to premium fulfillment alone can save a lot of money and headaches. Premium requests may rise and fall erratically, creating personnel problems. Inexperienced people may make errors in postage and addressing. The time lag may be longer than necessary. Pilferage by employees often looms large, usually coinciding with destroyed requests. Premiums are intended to be good will builders, and any factor that fails in this respect creates ill will instead.

The Language of Advertising: How to Be Attuned

IN THE AD AGENCIES along Manhattan's Madison Avenue and Chicago's Michigan Boulevard the true test of a huckster's sincerity is the way he speaks the language. But it is not the English language as most people know it: it is the adman's jargon, which changes as fast as a sponsor's mind when the Hooperating slumps. An adman who wants to keep "with it" must change his vocabulary almost every week. Otherwise, he simply will not be considered an "acute citizen"; he just won't be "attuned." Last week the acute citizen had some sharp new phrases:

The office, once known as the "shop," is now the "foundry," "store" or "delicatessen." An adman attends "brainstorm sessions" instead of meetings; there, ideas are "pressure cooked," "housebroken," or merely "kicked around." And if no single idea is "bought" that is, if nobody "gets any nourishment from it"—chances are a bunch of ideas will be "Burbanked," i.e., combined into a hybrid. At such high-level "spitballing sessions" it may be advisable to "pitch up a few mashie shots to see how close we are to the green." Then, having made sure that

the scheme has sufficient "protein," i.e., is a good idea, the proper people can be "bulletined" and the deal "teamworked" through.

Any successful adman nowadays must "get into the field"—even if it is only on a "one-man survey"—to "check the trade" and get an "on-the-ground approach" to the "big picture." That means, of course, both "sales-wise" and "production-wise." Then, having gotten a "fill-in" (which is known in advertising circles as letting an outside dope in on the inside dope), he will be all set to "finalize his thinking" and "explode the market."

—Time 10/13/52

"How Much Is It?"

THE PUBLIC WANTS TO KNOW the price tag on advertised products.

In fact, consumers now report that the number one item they want to see in advertising copy is the price. Everett R. Smith, director of marketing and research, Macfadden Publications, Inc., summarizes in the following list what people want in today's ads:

	Total	Husbands	Wives
Price	42.0%	36.0%	48.0%
Description; what it is; how to use; contents.....	37.2	31.4	43.0
Quality; grading	19.6	17.3	22.0
Where available; name of manufacturer	10.2	9.3	11.1
Guarantee	7.0	7.5	6.4
Benefits; advantages of owning	7.4	7.2	7.7
Durability; dependability	4.9	4.2	5.7
Proof of claims (seal of approval, gov't stamp, etc.).....	1.2	1.0	1.3
General ("Give the facts," "the truth," etc.)	20.2	23.6	16.8
Not reported	20.3	23.1	17.4

If consumers are this price-conscious as they read advertising, are manufacturers giving them the information they want? James D. Woolf, advertising consultant, who addressed the recent convention of the Advertising Federation of America, doesn't think so. Said Mr. Woolf: "How any advertisement above the lollypop level can make sales-sense at all when it fails to discuss price and value, is a question that completely escapes me. Yet the majority of national advertisers seldom or never quote prices. A recent issue of *The Saturday Evening Post*, for example, carried 255 advertisements—and only 47 of them offered any sort of price information! And this at a time when the average American is more worried about his take-home pay—and about how far he can stretch it—than about any of the many other anxieties that beset him."

—Sales Management 7/1/52

Helping Dealers Make Sales—A 10-Point Formula

HOW TO BUILD a fire under dealers and distributors? Here is a formula, applicable to either industrial or consumer dealer sales, worked out by the Williamson-Dickie Manufacturing Company, Texas producer of matched work uniforms:

1. Use a well-planned, regular stock-reordering schedule.
2. Price competitively.
3. Feature well-known brands.
4. Use attractive interior displays.
5. Have well-planned window displays.
6. Follow well-planned advertising schedules.
7. Train personnel well.
8. Locate the department properly.
9. Light the department well.
10. Use efficient, attractive stock fixtures.

—Dartnell Sales Service (Chicago 40, Ill.)

Also Recommended • • •

FACTS AND READERSHIP STUDIES. By Russell L. Putnam. *The Advertiser's Digest* (415 N. Dearborn Street, Chicago 10, Ill.), August, 1952. Mr. Putnam evaluates readership studies and concludes that for the most part they are invalid. He discusses the fallacies common to such studies and points out what, in his opinion, they actually measure: not what the public is reading, but what publishers' promotion and propaganda have led it to believe it should be reading.

PRINCIPLES OF MARKET PLANNING. *Cost and Profit Outlook* (Alderson & Sessions, 1401 Walnut Street, Philadelphia 2, Penna.), June, 1952. In only a few leading companies does the staff participate in market planning to the extent that staff units devise marketing strategies and recommend policy limits within which these strategies should operate. One factor impeding this development is the lack of recognized principles of market planning. This article suggests how these principles can be developed, considers the procedure to be followed in launching a plan, and tells how to evaluate a marketing plan in relation to conditions which may affect its success.

WHY NORWICH PAYS FLAT SUMS FOR SALESMEN'S TRAVEL EXPENSES. By Theodore M. Hageman. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), Vol. 68, No. 7. A plan devised for handling salesmen's auto and traveling expenses at Norwich Pharmaceutical Company calls for payment to each salesman, semi-monthly and in advance, of a fixed expense allowance tailored to his particular territory. This article shows how the allowances are computed and lists the various advantages of the plan. Among these is the fact that clerical labor is greatly reduced by the elimination of the audit of salesmen's expenses.

12 QUESTIONS ABOUT THE FORGOTTEN MAN IN SALES: THE SUPERVISOR. By L. J. Warren. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), June 1, 1952. In this article a sales manager summarizes his company's experience in building sales volume through sound supervision. His 12 questions, with their answers, have to do with the need for supervision, its importance to the salesmen, and the qualifications of a good supervisor.

MARKETING: ALL SET FOR THE NEW ERA? *Modern Industry* (400 Madison Avenue, New York 17, N. Y.), June 15, 1952. This article describes General Electric's new marketing plan which is aimed at improving the marketing operation by putting an end to confusion concerning its functions. The plan calls for reorganization of the marketing operation strictly according to predetermined functions with more authority for marketing executives and a clear and complete definition of that authority. Officials at G-E expect the plan to be a success because it is flexible, it pins down responsibility and it eliminates buck-passing.

275 TOP-PAID SALES EXECUTIVES. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), June 1, 1952. This article, based on a sampling of proxy notices of manufacturing companies whose security issues are regulated under federal law, lists the salary, bonus, and pension and retirement benefits received by each of 275 top-ranking sales executives. The median average of their salaries, commissions and bonuses totaled \$42,500 before taxes, the study showed. In addition, 65 per cent of these sales executives benefit from company contributions to pension and retirement plans.

FIVE INITIAL STEPS TO BE TAKEN BEFORE INTRODUCING NEW PRODUCT. *Marketing* (100 Simcoe Street, Toronto, Canada), June 28, 1952. Before a company introduces a new product, five preliminary steps are necessary, as set forth in this article. First, a thorough study of the direct competition must be made and the product consumer- and laboratory-tested. Then comes a consideration of the outlets to be used, the type and size of package, and the possibility of sampling and demonstrations.

SELF-SERVICE IN THE DRUG CHAINS—A PORTENT OF THINGS TO COME. *Grey Matter* (Grey Advertising Agency, Inc., 166 West 32 Street, New York 1, N. Y.), July 15, 1952. This article describes the modified form of self-service evolving among the drug chains and predicts that within a few years this will become the prevailing selling technique of the drug trade. It also predicts that other non-food outlets will adopt self-service when they discover—by observing the experience of the drug outlets and food supermarkets—the wide variety of merchandise it is possible to sell in this way.

Financial Management

WHO OWNS BUSINESS?

WHEN THE Brookings Institution recently announced that there are approximately 6,500,000 stockholders in the U. S., the news was hailed as evidence of the widespread ownership of American industry. But some of the cheering is a bit premature. What the report actually portrays is not so much an achievement as an opportunity.

Among the welter of statistics were a few that should explode some popular myths. We note, for example, that the ladies have yet to establish a matriarchy in the financial marts; men still outnumber women shareholders slightly (3,260,000 to 3,230,000) and, what's more, own some 30 per cent more shares (1.8 billion shares vs. 1.3 billion).

The report also torpedoes the pious claim that today's stockholders are, in the words of the president of the New York Curb Exchange, "buying more with an idea to investment." Not so; only 22 per cent of all stockholders say that they buy primarily for investment. Twenty per cent acquire stock through gifts or inheritances; 10 per cent because their brokers, bankers, or attorneys tell them to (for numerous purposes including, of course, investment); and others for a variety of lesser reasons. However, the biggest number (28 per cent), continue to buy stocks for capital appreciation—and not as a protection against inflation, either. Only 1 per cent of all stockholders say they buy stocks as an inflationary hedge. Most others who seek capital gains are apparently motivated by

the gambling instinct and view the market as a sort of legalized horse parlor.

Moreover, it is hardly a testament to securities salesmanship that fewer than 5 per cent of the individuals and 10 per cent of the families in the U. S. own stock today. Four times that number of families invest in "E" bonds (a patriotic but highly uncertain investment in terms of future dollar value), five times as many have savings accounts, and eight times as many own life insurance. With only 6.4 per cent of the adult, voting population owning stocks, it is hardly surprising that, as a group, stockholders are abysmally pressureless and forever being sat upon.

There is, moreover, little cause for rejoicing because 75 per cent of all stockholders are people earning less than \$10,000 a year, and nearly a third earn less than \$5,000. These figures may superficially suggest that Main Street and Wall Street have already merged, but that is hardly the case. People earning less than \$5,000 may account for a third of the total number of stockholders, but they also comprise 57 per cent of the adult population. And less than 3½ per cent of this sizable political majority has any direct interest in corporate ownership and profits today.

What is most shocking, perhaps, is the apparent lack of appetite for stocks among the men who run U. S. business. According to the Brookings report, only 45 per cent of the "administrative executives" in the country own corporate stocks. This is admittedly a better show-

ing than for any other group, but it is hardly a reassuring statement of management's confidence in its own ability to turn a profit.

Some observers profess to see a healthy trend in stock acquisitions in recent years. Some 6 per cent of all stockholders, for example, entered the market during 1951. When you consider, however, that the population has been growing 2 per cent annually since World War II, that the age level is advancing, and that one of

the longest bull markets in history is still in progress, the number of converts last year can scarcely be considered spectacular.

If there is any solace or inspiration to be derived from the Brookings report, it is that such a tremendous job remains to be done. A huge market remains untouched—a market composed of millions of potential capitalists who have billions of dollars of untapped savings to invest in industry's further growth.

—*Fortune*, September 1952, p. 87:1.

What People Do with Their Savings

TO GATHER INFORMATION on the public's saving habits, the Business Executives Research Committee of the University of Minnesota recently conducted a pilot study covering 200 individual cases. Here are some of the major findings of the survey:

About one-half of the persons reporting held common stocks, and about 10 per cent held investment company shares. Fifty per cent held U. S. Government Bonds. Insurance of some kind was held by 99 per cent. Only three out of every 10 had \$500 or more cash on hand or in savings accounts available for emergency use.

Distribution of the aggregate savings of the group was as follows: held in cash, savings accounts and government bonds, 32 per cent; used to increase equity in home ownership, 25 per cent; placed in other investments, including stocks, bonds, other real estate, etc., 23 per cent; used for payment of life insurance premiums, 20 per cent.

The income levels below \$7,500, it was noted, devote a higher than average proportion of savings to the purchase of homes, and as income increases further, this percentage decreases sharply. On the other hand, as income increases, there is a marked rise in the tendency toward investing in stocks, bonds, real estate, etc.

Only 38 per cent had planned or formal savings programs, and 32 per cent had consulted with someone they believed to be a specialist on savings programs or problems.

Two-thirds of those who had never consulted a specialist about their savings programs or problems considered themselves sufficiently well informed to handle their own savings properly. However, the study observed that reasons given for feeling themselves properly informed indicated that many of them were not sufficiently informed and that they needed good advice.

—*Journal of Commerce* 9/22/52

DEFICIT SPENDING is on the increase among state governments, according to the Tax Foundation. In 1946 only one state spent more than it received; in 1951 there were 27 states with annual deficits.

—*Journal of Commerce* 8/18/52

HOW TO MAKE A RAISE WORTH IT

THERE WAS A TIME when the only salary consideration a company had to worry about was how much of a raise a man was worth. Now, because of high taxes, companies not only have to think about how much to pay their executives, but, even more important, how to pay them.

That's because the method can determine what the executive's take-home pay will be. Straight salary increases will do the trick, of course—if they are big enough. In the high tax brackets, however, the increase has to be so large it becomes almost embarrassing—and costly to the company. On top of this, of course, is inflation, which also eats away the buying power of regular income.

A recent survey covering 164 companies in 27 industries, designed to find out what's happened to executive pay during the two-year period, 1949 to 1951, revealed that there is a definite trend toward supplementing straight salaries with other forms of direct or indirect compensation.

According to the survey, well over half the companies use three or more types of compensation to pay their presidents. (The survey was confined to presidents, but it is safe to assume top officers generally are included when companies change their salary plans.)

One of the most popular devices used was the stock option plan, a direct result of the 1950 tax law which made these more attractive tax-wise. Next came pensions, paralleling the growth of that form of fringe benefit to rank-and-file. Cash bonuses also became more popular. (The figures don't distinguish between straight bonuses and profit-sharing.) Many companies have adopted some form of profit-sharing in the past few years, because

they tie executive pay directly to over-all company performance and also take into account inflation as reflected in the profit picture.

Far down the list of executive pay schemes are deferred compensation and stock bonuses. The reason in both cases is easy to see:

Stock bonuses are considered direct income, so companies have found too often that an executive has to sell his bonus shares in order to pay the tax on them.

Deferred compensation contracts can be an ideal way to pay executives, but they don't always stand up against the tax laws. They help spread the executive's tax load by holding off some of his salary until a period when lower earnings cut tax bills—or taxes themselves are reduced. Such methods apparently hold up as long as they are (1) used to keep executives in the family and (2) the executive fulfills certain requirements before getting the part of the salary that is deferred. Even so, there has been no clear tax decision on these deferred contracts.

If a compensation plan is going to work today it has to serve the following four purposes: (1) Give executives relief from the tax squeeze. (2) Provide security for officers during their employment and after retirement. (3) Provide enough pay, but in such a way that it will be acceptable to stockholders. (4) Be reasonable in the eyes of junior executives and employees.

No single method of payment can meet all the requirements. In almost every conceivable method there are drawbacks of some kind if it is used alone.

Take bonuses. They can help spur management beyond perfunctory perform-

ance, but they are subject to a heavy tax bite. There also is the temptation for executives to stress certain parts of the business where results will pay off in a maximum bonus. If all the executives have to shoot for is the bonus, they may neglect long-range goals.

Pensions, too, are faulty by themselves. For one thing, they don't keep pace with inflation. In order to be tax-deductible

for the company, they must cover a broad section of the company's employees, thus limiting the size of the officer's share. Special executive bonuses may run into sticky tax problems.

Even stock options, which until recently seemed an answer to both taxes and inflation, are now under attack in the courts.

—*Business Week*, October 4, 1952, p. 113:2.

Special Reports on Stockholder Annual Meetings

TO MAINTAIN close touch with the thousands of stockholders who are unable to attend annual meetings, more companies than ever before issued special reports to their shareholders this year, providing in many cases detailed accounts of what took place. These reports, ranging from one-page leaflets to handsome, illustrated brochures, are often as impressive as the regular corporate annual report.

Many such reports reflect considerable ingenuity on the part of management. Matson Line, for example, made its report of the annual meeting also serve as a valuable piece of sales literature. The meeting was held aboard one of its luxury liners and the pictorial reports sent to stockholders contained many attractive views of the interior of the ship and its facilities. Another meeting, that of the Twin City Rapid Transit Company of St. Paul-Minneapolis, was televised, and those who could not attend the meeting in person later received a profusely illustrated brochure of the proceedings.

Many companies sent out reports of their meetings with quarterly income statements. American Telephone & Telegraph was in this category. Its report contained an address by the president, results of the vote on resolutions, and the story on the discussion. With its more than one million stockholders, AT&T has a major problem in sending out any communication to stockholders. Another large corporation, General Motors, sent out its annual meeting report in combination with a stockholder dividend check.

—*Journal of Commerce* 8/28/52

Why Firms Go Bankrupt

AFTER AN EXHAUSTIVE INVESTIGATION of thousands of bankruptcy cases, Judge William Clark, Federal District Judge in New Jersey, made the following observations about business failures:

1. At least three-quarters of the nation's bankruptcies could be avoided.
2. The most important cause of bankruptcy is the failure to keep proper books. Ninety per cent of the failures studied did not keep books.
3. The great majority who fail have no exact information as to what proportion of their business has been done on credit. It is conservatively estimated that 15 per cent of all retail failures in the U. S. resulted from carelessness in giving credit.

—*Office Executive* 8/52

THE PURCHASING DEPARTMENT'S ROLE IN COST REDUCTION

PROGRESSIVE management is keenly aware of the potentialities for adding to company profit and enhancing its competitive position through efficient procurement. Accordingly, it is attaching increasing importance to a comparatively new concept of buying, sometimes called "purchasing engineering," or "value analysis." Whatever its name, its purpose is cost reduction.

This new type of buying is based on the rule that the true measure of purchasing performance lies in ultimate production cost. It entails a basic knowledge of materials, the adaptations and comparative values of the varied methods of production, and the ability to analyze the production equipment and facilities of suppliers. This, of course, requires that the purchasing men be intimately familiar with their own plant facilities and the end-use of the products made.

During the past few years top management at the Rockwell Manufacturing Company has given this broad subject searching analysis. The company is composed of 17 divisions and subsidiaries, each having its own purchasing department which is directly responsible to the plant manager. Overall purchasing policies, procedures, and inventory policies are centralized under the supervision of a vice president.

About a year and a half ago the headquarters purchasing department issued a comprehensive purchasing department manual, defining company procurement policies for the guidance of the purchasing departments and plant managers. The manual summarizes the potential sources of savings through "value analysis" as follows:

1. Lower prices obtained by developing new sources of supply.

2. Price reductions made by regular sources of supply other than normal fluctuations.
3. Development of non-restrictive specifications, resulting in wider competition.
4. Use of standard items and sizes wherever possible.
5. Utilization of new or substitute materials where economical and practicable.
6. Negotiation of better trade discount, cash discount, and quantity discount classifications and terms.
7. Utilization or salvage of surplus and obsolete supplies and equipment.
8. Purchase of fabricated or semi-finished components which may be uneconomical to manufacture in the company's own plant.
9. Improved purchasing procedures and lower costs of departmental operations.

Also, for the guidance of purchasing men, the manual indicates the various steps to be taken in studying requisitions, with a view to finding ways of cutting costs. Every material, every part, every operation must pass these tests:

1. Does its use contribute to value?
2. Is its cost proportionate to its usefulness?
3. Does it need all of its features?
4. Is there anything better for the intended use?
5. Can a usable part be made by a lower cost method?
6. Can a standard product be found which will be usable?
7. Is it made on proper tooling—considering quantities used?
8. Do material, reasonable labor, overhead and profit total its cost?
9. Will another dependable supplier provide it for less?
10. Is anyone buying it for less?

The purchasing men are applying these tests with highly profitable results. Their approach is practical, since it is backed up by a thorough understanding of the processes in which purchased materials are to be used. This knowledge of plant operations is necessary if the purchasing

man is to analyze material requisitions intelligently and, where advisable, recommend substitutions that are practicable from an engineering standpoint. It is understood, of course, that no change in specifications is made without the approval of engineering and other departments concerned.

—C. WARNER McVICAR. *Purchasing*, May, 1952, p. 94:5.

Operating in this way, the company's purchasing men have been able to achieve some remarkable cost savings. They demonstrate that properly manned purchasing departments backed by sound policies can make outstanding contributions to a company's profit and the maintenance of its competitive position.

THE FEDERAL TAX LOAD for 1952 amounts to \$1,389 per American family, as compared with \$1,196 for 1945, at the peak of World War II tax collections, and \$152 per family as recently as 1940, reports the U. S. Chamber of Commerce.

Also Recommended • • •

SEVEN BUDGETS MAKE A BUDGET. By William S. Vaughn. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), June, 1952. A comprehensive budget, in use at Eastman Kodak, which covers such items as sales, capital expenditures, research and development, inventory, and manufacturing expenses, is described in this article. This budget serves as a yardstick against which to measure actual performance as it occurs and also helps in shaping future plans. Its success can be attributed to the fact that it reflects the cooperative efforts of many individuals and departments within the company.

RENEGOTIATION TECHNIQUES. By R. L. Brumage. *The Controller* (1 East 42 Street, New York 17, N. Y.), August, 1952. The effective administration of renegotiable business requires teamwork with sales, production, engineering, accounting and general management. This article describes the role of each of these in handling renegotiable business within the author's firm.

ELECTRONICS TODAY: A CONTROLLER'S VIEW. By Paul G. Drescher. *The Controller* (1 East 42 Street, New York 17, N. Y.), July, 1952. The various applications of electronic machines to business are discussed in this article. An electronic calculating punch, for example, developed by IBM, can be applied to billing, payroll work, inventories, and production control. However, despite the development of electronic devices to meet

special needs, the adaptation of electronic principles to everyday business uses will not be easy and may not be accomplished in the very near future, the author feels.

HOW TO USE STANDARD COST. By John Pugsley. *N.A.C.A. Bulletin* (National Association of Cost Accountants, 505 Park Avenue, New York 22, N. Y.), August, 1952. This broad case study elaborates on an extensive system of standard costs used in a large industrial company with a wide variety of products and control problems. The study shows that standard costs are helpful to management in solving many diverse problems, whether they concern selling prices, equipment replacement, cost reduction, or any of the many other points at which interpretative costing can help management arrive at an operating decision.

PROGRESS THROUGH FREEDOM. By D. A. Hulcy. *The Controller* (1 East 42 Street, New York 17, N. Y.), May, 1952. In this article the author defines and examines the fiscal policies and practices of our Federal Government, which, he says, are part of two general trends: one toward socialism, the other toward bankruptcy. He points out that unrestrained spending, increased taxation, and waste of our national resources have been the result of indolence and indifference on the part of too many citizens. Only through mass vigilance can we hope to avoid the evils toward which our policy-makers have been leading us, he warns.

Insurance Management

SHARING THE RISK ON CREDIT LOSSES

THOUGH THEIR OWN companies may be in a sound financial position at present, farsighted business managers are beginning to give serious consideration to the possibility of suffering credit losses. They recognize that postwar prosperity cannot continue indefinitely and that many new customers may find themselves in difficulties. A danger signal today is the rising trend in the percentage of past-due accounts among accounts receivable, particularly among those 60 days old or older. Companies alert to such warning signs are beginning to look into credit insurance, which guarantees manufacturers, wholesalers, and certain service agencies that they will be paid for goods shipped or services rendered.

How does this insurance work?

The customers whose accounts are to be insured are analyzed according to (1) estimated financial strength, and (2) their Dun and Bradstreet rating, or the rating of the mercantile agency recognized in their particular field. The insurance company sets maximum limits on how much coverage it will give on each account, depending on a combination of financial strength and credit rating.

However, the company makes itself responsible only for its policyholders' abnormal credit losses—the sudden insolvency of a substantial customer of long standing, or a whole group of accounts brought into difficulties by such unusual developments as strikes or economic recession. The indemnity doesn't start to apply until a policyholder's credit losses

exceed the norm for his particular business.

Furthermore, the policyholder must pay a fixed percentage of any abnormal loss. This "deductible," which is usually either 10 per cent or 20 per cent, is designed to keep the insurance company from insuring the policyholder's profit margin. (The underwriters feel that credit insurance should protect only the working capital which the policyholder has invested in his receivables.)

The deductible often has other purposes, too. For one thing, it keeps the policyholder from being reckless about extending credit. And the deductible is likely to be higher when the type of business covered is of relatively poor quality, or when the insurance company is carrying high maximum limits.

Protecting policyholders against excess credit losses isn't the only function of credit insurance. Whenever past-due accounts begin to run on, they are filed for collection with the insurance company. Many policyholders, particularly small companies, don't have their own collection facilities. The insurance company can assist in collecting accounts either by using its own collection department or by retaining collection attorneys, who are available anywhere in the United States.

Though policies vary in their provisions, very often all the policyholder has to do to prove his loss is to file his report that such and such an account is so many days past due. Such policies give policyholders an incentive to report past-due accounts before they run on very long.

Sometimes prompt reporting by one policyholder serves as a tipoff on the credit standing of certain debtors who, though over-extended, have been able to maintain their credit rating by paying bills of the stronger creditors and stalling off the smaller ones. Immediate action by the insurance company often secures better terms for its policyholders than other creditors get later on.

In other cases, the insurance company is instrumental in helping the debtor to stay in business. With its greater experience, it is able to estimate more accurately than other creditors whether an insolvent concern has a good chance of working itself out of debt. It can then attempt to persuade other creditors not to force the insolvent into legal bankruptcy.

After having paid its policyholders their abnormal losses on bad accounts, the insurance company often collects "salvage" as the debtor works off his debt, or when a final bankruptcy settlement is made. The proper proportion of salvage is then returned to the policyholder, depending on what percentage of the abnormal loss he had to absorb.

—*Business Week*, July 5, 1952, p. 60:3.

The existence of a credit insurance policy often helps to solve a problem inherent in many businesses: the conflict between the sales department and the credit department. When a credit man refuses to approve an order produced by the sales department, he can show that it would create a larger line of credit for one account than the insurance company will insure. Or, if the policy does give coverage for a larger line than the credit man would himself have approved, this makes it possible for the company to increase its sales with a considerable amount of safety.

Finally, the credit-insurance companies frequently serve as a balance wheel. Without credit insurance, business men are likely to run to extremes. In boom times, they may become too liberal in extending credit. Then credit losses may make them overcautious about credit. But credit insurance, with its fixed lines of insurance beyond which the underwriters will not go, provides a warning during the boom and gives confidence in deflation.

Underwriting Profits on Casualty Insurance

CONTRARY TO general belief, underwriting profits on five major casualty insurance lines written by member companies of the National Bureau of Casualty Underwriters averaged only 0.7 per cent of earned premiums over the 20-year period from 1931 through 1950, it was announced recently by the National Bureau.

This means that after incurred losses and expenses the companies had left as underwriting profit an average of 70 cents out of every \$100 of earned premiums on the five casualty insurance lines. It was emphasized by the Bureau that these underwriting profits were before federal income taxes, and that after taxes the underwriting results would be even less profitable. The casualty insurance lines covered were automobile liability, general liability, boiler and machinery, plate glass, and burglary and theft.

For the 15-year period, 1936-1950, the companies showed an underwriting profit of only 0.6 per cent on the five lines, or an average profit of 60 cents per \$100 of earned premiums, the Bureau announced. For the more recent 10-year period, 1941-1950, the underwriting result for the five lines was not a profit but a loss of

1.1 per cent, or an average loss of \$1.10 per \$100 of earned premiums. For the most recent five years analyzed, 1946-50, member companies suffered an underwriting loss of 3.5 per cent, or an average loss of \$3.50 for every \$100 of earned premiums on the five lines.

By line, underwriting results over the two decades showed the following average profits or losses:

	1931-50 Average
Automobile liability	— 1.9 per cent
Boiler and machinery	— 2.0 per cent
Plate glass	— 1.0 per cent
General liability	4.8 per cent
Burglary and theft	10.6 per cent

It was pointed out that total premium volume rose steadily through the 20-year period, and consequently the percentage figures do not reflect the size of actual dollar losses or profits. Since almost all underwriting losses occurred during the most recent years, a percentage loss for a more recent year more than offsets an equal percentage of profit for an earlier year, it was explained. This is because the total dollar volume of premiums on which the recent underwriting loss percentages were calculated was much larger than the premium volume on which the earlier underwriting profit percentages were calculated.

—Insurance Advocate 9/20/52

Fire Losses Reach All-Time High

ACCORDING to a recent report of fire losses by the National Board of Fire Underwriters, the total fire loss for 1951 reached almost \$80 million, or 12.3 per cent more than for the preceding year.

Much of the nation's fire loss resulted from building fires, of which there were 418,871. Nearly three-fourths, or 293,776, of the fires in that classification were in residences. Analysis showed that the 1951 fire losses reflected a substantial rise of 7.4 per cent in the number of building fires in urban areas over the previous year.

Major cause of these fires was careless use of matches and smoking. Such carelessness accounts for close to 27 per cent of the nation's reported fire losses.

Other major causes of fire were misuse of electricity; exposure to fire originating off premises; sparks on roofs; over-heated or defective chimneys or flues; lightning; overheated stoves, furnaces or boilers; ignition of hot greases; and spontaneous combustion and explosions.

—Fire Insurance Facts and Trends (The National Board of Fire Underwriters) 8/52

AMA FALL INSURANCE CONFERENCE

The Fall Insurance Conference of the American Management Association will be held on Thursday and Friday, November 13-14, at The Drake Hotel, Chicago.

COST-OF-LIVING ADJUSTMENTS IN PENSION PLANS

COMPANIES that have tried to provide adequate pensions are being forced to the realization that their plans are not meeting their objectives. Ten years ago the "ideal" plan was based on a benefit formula integrated with Social Security, which would provide 2 per cent of an employee's total earnings. The formula usually provided $1\frac{1}{2}$ or $1\frac{3}{4}$ per cent of earnings on the effective date times years of prior service. An employee retiring after 35 years' service could receive an annual income of 2 per cent of average annual pay times 35, or 70 per cent of average annual pay. The theory was that average pay would prove to be about two-thirds of final pay and the pension would thus be close to half of final pay.

Something has gone wrong with the theory. One surprising fact is that in many companies most of the employees who have retired have had less than 35 years of service and emerge with 50 or 60 per cent of average pay. The other startling, upsetting factor has been the effect of inflation. Seventy per cent of average past earnings is nowhere near half of final earnings.

The problem of bringing the plans up to date poses a dilemma. There are two types of solution, each of which has its advantages and disadvantages.

One general approach is to make a retroactive improvement. One method is to compare present wage and salary scales with those in effect at the time the plan was adopted and to make a corresponding retroactive increase in accrued pension credits. This is a good method if the original formula was sound, and it would have functioned well except for inflation.

Sometimes, however, the original for-

mula for past service was a compromise between what was desired and what the company felt it could pay for. Perhaps, too, the future service formula was admittedly not fully adequate. In any event, the revision in Social Security has thrown the integration of the future service formula out of kilter. In these situations, a number of companies have revised their plans as though they were starting afresh. Thus the plans may be amended to provide a future service benefit of 2 per cent of current pay (reduced on the first \$3,600 of annual pay to tie in with the new Social Security benefit).

The past service benefit is, possibly, $1\frac{1}{2}$ per cent of pay on the effective date of the revision of the plan times years of service prior to the revision date, less the original past service benefit and the future service benefits already accrued under the old plan.

This general approach has the great advantage of establishing a measurable increase in liability which the company can face up to and adopt or reduce by a compromise formula or forego, depending on the commitment the board of directors feels the company can afford to take on. Its great disadvantage is that, if inflation continues, the job will have to be done over again in a few years, with all the trials of fresh studies, board consideration, and stockholder action.

The other general approach is to take the bull by the horns and settle the problem once and for all by amending the plan to provide a minimum income of, say, $1\frac{1}{2}$ per cent of average pay in the last five years before retirement, inclusive of the primary Social Security benefit.

Any company going into this arrangement should be fully aware of the fact that it is taking on an unpredictable liability. Any continued inflation against which the plan is designed to protect the employee will impose an unknown additional cost liability on the company. The actuary, in calculating the amounts required to fund the plan, has a sufficiently difficult problem to forecast the gradually improving mortality rates in his mortality assumptions. No actuary can predict the scale at which salaries will increase. He can, in his assumptions, construct a hypothetical scale of normal pay increases based on present salary distributions in a company, but where general pay increases take effect in excess of the projected normal rate of increase new liabilities are created. The benefit based on such a general pay increase in excess of the normal rate is a benefit times all years of service. For example, let us say that the formula is 1% per cent of final average pay times years of service and the employee entered service at age 35. If the employee at age 55 is included in a general pay increase of 10 per cent, the additional benefit is not 1% per cent of the increase times the remaining years

to retirement but is 50 per cent of the increase. Thus there is a past service element to be picked up.

Plans of this nature cannot be funded by the purchase of guaranteed deferred annuities each year. They can only be funded through a trustees arrangement or through a deposit administration fund with an insurance company. The usual method of the actuary would be to determine the normal or theoretical level future cost based on the data and assumptions used at the outset and then determine the accrued liability which these normal cost payments will not cover for the individuals in the plan at the outset. Commonly the accrued liability is treated as a "frozen" liability. Thus any increases in benefits by reason of pay increases in excess of those assumed, even though they contain a past service element, must be funded from the employees' then attained ages to retirement age. In considering the adoption of such a plan, it must be recognized that the normal cost can rise very sharply. A 10 per cent increase in payroll, for example, could cause the normal cost to increase by considerably more than 10 per cent.

—JOHN M. HINES. *The Journal of Commerce*, June 12, 1952, p. 19:1.

Stockholders' Protective Insurance to Be Offered

STOCKHOLDERS' PROTECTIVE INSURANCE is a new adaptation of the principle of protection against the third party liability hazard. Copyrighted by the insurance consulting firm of Belt & Ricker, Chicago, it has been in the process of development for some time and is now being made available to several insurance companies.

The insured under this program are the stockholders of a corporation; presumably, a trustee would ordinarily serve in behalf of the stockholders. The hazard insured against is the depletion of the net worth of the corporation from liability judgments against the corporation that exceed its own insurance recovery. The recovery inures to the stockholders rather than to the claimants.

The rating basis is the difference between the amount of coverage that the corporation carries and the amount of cover for the stockholders' trustee. The end charge for the insurance is what that amount of insurance would cost if purchased directly, plus a slight loading for such extra covers as full "occurrence" on bodily injury and property damage liability, libel and slander and false arrest.

The insurance applies as excess to regular liability insurance presently available

to and purchased by the corporation. It would cover substantially all the insurable tort liability of the corporation, and, in the event the occurrence involving the claim is not within the orthodox insurance, the stockholders' protective cover would apply in excess of a predetermined deductible amount.

The premium is based on the actual exposures and the net worth of the corporation. Belt & Ricker says it is essential that the premium for the stockholders' insurance actually be paid by the shareholders and not the corporation. If it were paid by the corporation, the benefits would undoubtedly inure to the corporate entity and not the shareholders.

It would not be practicable for stockholders of large corporations to purchase such cover, but the cost will be less than \$50 per year for the entire group of shareholders in hundreds of corporations with assets of \$200,000 or less.

—The National Underwriter 7/17/52



"You are in danger from fire, lightning, riot and civil commotion, aircraft and articles dropped therefrom, burglary and housebreaking, larceny, bursting and overflowing of water tanks, apparatus or pipes, storm and tempest, and impact from road vehicles. I see you in Court being held responsible for causing grievous bodily injury to a third party. I see you in hospital. I see your widow and children homeless and starving. I see you . . ."

—Reprinted from *The General's Review* (The General Accident Fire and Life Assurance Corp., Ltd., London, England) 9/52

IS THE UNEMPLOYMENT INSURANCE SYSTEM REplete WITH "CHISELERS"?

Is THE unemployment insurance system as administered in this country rife with "chiselers"? Of course not! Neither is it completely free of them. Nor would any business enterprise which paid out as much as \$1.8 billion in a single year be free from fraudulent acts against it. But the system as it now operates has sound methods available to prevent fraud, techniques for detecting such fraud as may be attempted, and criminal penalties in all state laws for dealing with those who are detected in attempting to defraud the system.

Fraud prevention is accomplished in the routine processing of claims for benefits. Before any payment is allowed, a claimant is interviewed as to his present activities, his previous employment, and the reason for separation from work. His statements are checked with his previous employer. If he tries to conceal a disqualifying reason for separation, or if he is actually working, he is likely to be discovered through this procedure. Proper questioning, however, will lead most claimants to reveal the true facts and will dissuade them from any inclination to falsify their claims.

Some persons who have no regular attachment to the labor market will file claims even though they are not dependent on employment and have no inclination to accept work. Unless they can show some substantial amount of previous employment, they will be barred for lack of sufficient wage credits to qualify. Even if they have sufficient wage credits, they will be questioned regarding their availability for work, reason for separation, and any refusal of work. Thus, in a

recent three-month period, 14 per cent of the new claims filed were rejected for lack of sufficient wage credits. During this quarter alone, 80,000 claimants were disqualified for voluntary quit, 22,000 were disqualified for discharge for misconduct, 20,000 were disqualified for refusal of suitable work, and 105,000 were considered not able or not available for work. In this same quarter more than 1,000 persons were convicted in the courts for filing fraudulent claims and in the 35 states having administrative penalties, over 6,000 persons were penalized for fraudulent claims.

What causes the controversy over the amount of "chiseling" in the system? To understand this it is necessary to define what we mean by fraud: Fraud is a willful misrepresentation made for the purpose of obtaining something of value to which the person making the misrepresentation is not entitled. As such, it is a criminal act and punishable as a crime under the laws of all states. The information available indicates that only about one-half of 1 per cent of claimants commit such offenses. This cannot be regarded as a serious weakness in the system, by any standard.

There is a large volume of cases which are properly payable under the law, as interpreted by the duly constituted authorities, but which some critics of the program find objectionable. If a critic solemnly asserts that 90 per cent of claimants are "chiselers," it should be obvious that he just doesn't like unemployment insurance. A critic who complains about a textile worker drawing benefits when farm hand jobs are going begging, for

example, should not accuse the worker of being a "chiseler" or a "fraud." His complaint is against the law, which very wisely does not seek to force square pegs into round holes, but denies benefits for refusal to work only if the proffered job is suitable for the individual. Determinations on suitability and on various other eligibility issues are subjective decisions on which honest men may disagree, but the state laws have assigned responsibility for making these determinations to public

officials who are expected to be expert and objective in dealing with these difficult determinations. They are properly accountable to the public for their decisions and most assuredly are not exempt from criticism. Criticisms of rampant "chiseling," however, are sometimes made because of misconception of the facts, lack of knowledge of the purpose of the program, or misunderstanding of the provisions of the law under which the payments are made.

—E. J. BOFFERDING (Assistant Chief, Unemployment Insurance Service, Bureau of Employment Security). *Employment Security Review*, June, 1952, p. 3:2.

Also Recommended . . .

BUSINESS INTERRUPTION INSURANCE PRESENT AND FUTURE DISCUSSED. By Chester A. Snow. *The Weekly Underwriter* (116 John Street, New York 38, N. Y.), September 27, 1952. According to the author, almost every firm needs business interruption insurance, which indemnifies the policyholder for the actual loss of earnings during the time required to restore a place of business to operation after damage or destruction. He explains the protection it affords, describes the types of contracts available, and discusses the factors involved in determining the amount of insurance required.

HOW TO INSURE MANUFACTURING RISKS: A COMPLETE INSURANCE PROGRAM. By Dorsey B. Kinnamon. *Rough Notes* (1142 North Meridian Street, Indianapolis 6, Ind.), August, 1952. The insuring of a manufacturing risk is not as complicated as it may seem, the author points out. The factors to be considered in choosing fire, business interruption, liability, and other types of insurance for such risks are discussed in this article.

KEEPING PENSION RECORDS UP TO DATE. By Russell B. James. *Personnel Journal* (Swarthmore, Penna.), July-August, 1952. This article describes how one company keeps vital statistics on its employee benefit plan accurate and up to date through the use of periodic questionnaires to all employees, including those on

retirement. In addition to obtaining the information required, these questionnaires have alerted all employees to the necessity for keeping the employment office informed, through their foreman or supervisor, of pertinent changes in their personal affairs.

THE KEY MAN. By J. A. Lyone Heppner. *Canadian Business* (524 Board of Trade Building, Montreal, Canada), July, 1952. Since responsible executives are always hard to find, their loss may have an adverse effect on the profits of a business. This article points out how a business can obtain protection against such loss through insurance on the lives of its key executives. One thing to remember about such policies, the author points out, is that premiums cannot be taken from operating expenses, but when the policy is finally redeemed the proceeds are considered capital gains and, as such, are non-taxable.

NEW PROFIT-SHARING PENSION PLAN GEARS COST TO COMPANY EARNINGS. *The TPFC Letter* (Towers, Perrin, Forster & Crosby, Inc., 12 South 12 Street, Philadelphia 7, Penna.), June, 1952. Many firms do not adopt a retirement program because of the disadvantages peculiar to two major methods of providing retirement income—the funded retirement plan and the profit-sharing pension plan. One company solved the problem by combining the best features of both in a retirement program described here.

Survey of Books for Executives

CREATING AN INDUSTRIAL CIVILIZATION. Edited by Eugene Staley. Harper & Brothers, New York, 1952. 368 pages. \$4.00.

*Reviewed by F. E. Verdin**

Here is an eye-witness account of a real intellectual dogfight at high altitudes in the ethereal world of concepts and ideas. The "combatants" are 100 men and women from industry, education, science, the arts and the professions brought together last year by the Corning Glass Company of Corning, N. Y., and the American Council of Learned Societies Devoted to Humanistic Studies to discuss "Living in an Industrial Civilization."

Naturally, and fortunately, perhaps, there was no indication of clear agreement on the part of participants that we are living in the best possible of civilized worlds. Such consensus by such a distinguished group would have tended to take the zest out of the book for those readers who believe, as I do, that this civilization's progress has been inalterably geared to a free and restless spirit of physical and intellectual inquiry. On the contrary, however, all sides dredged up their share of controversial ideas. It is needless to add here that a great number of profound questions were left, of necessity, without answers—which is so much the better because it leaves the hungry reader with some food for honest-to-goodness thought.

Laying aside the actual content of the book for the moment, I cannot offhand conceive of a more productive gathering: industry symbolizing, if anything does, the technological advancement of our civilization, and education symbolizing with equal similitude the whole intellectual groundwork upon which that advancement has been achieved. In these respects, the Corning Conference can truthfully be hailed as another highpoint in the civilization which these learned and enterprising men

and women had convened to discuss. It is the kind of thing of which we industrialists hope to see a great deal more.

Industry's growing concern with the human values of civilization is especially gratifying in an age which has been criticized, perhaps too frequently and too harshly, for its crass and materialistic ways.

The Corning Conference was conducted in round-table groups of 20 to 25 each. Its purpose was not to find ways for increasing production of goods, realizing bigger profits, increasing wages or resisting the challenge of Communism—although the discussions touched upon all these important matters. Each group was assigned a separate avenue of approach to weigh and report on our industrial civilization from the standpoint of its human values. *Creating an Industrial Civilization* is the brilliantly organized result of that hundred-man process of examination and evaluation, along with the background papers which were prepared in advance for each of the panels.

The group discussing *Work* and *Human Values*, for example, emphasized the need for employee participation, satisfaction and recognition in developing and providing an avenue of expression for human values in modern industrial society. In all of these incentive areas it was concluded that industry should assume a major role of responsible leadership. The round table on *Leisure* and *Human Values* attempted to define leisure in an industrial society; prescribed the types of training which are necessary to really enjoy leisure; and weighed the worth of leisure in terms of the individual worker and the over-all social structure of which he is an indispensable part.

Similar approaches were taken by the panels on "Industrial Sense of Community" and "Confidence in Life in an Industrial Civilization." In each instance, specific related problems were tackled and solutions or approaches to solutions offered.

In a way, it is too bad that some of the

* Director of Personnel, The Cleveland Electric Illuminating Company.

"off-the-cuff" discussions which took place during the so-called "leisure hours" of the conferees themselves could not have been recorded. Unless the Corning affair differed markedly from most conferences, it was probably at these meetings of the minds that the highly theoretical academicians and the highly practical business men experienced their best mutual understanding and insight.

The reader will find this well-presented report chock-full of stimulating ideas and quotations from top-flight representatives of management, labor, government, the arts and professions, science and the humanistic studies. *Creating an Industrial Civilization* is a book well worth careful and reflective reading.

PUBLIC RELATIONS. By Edward L. Bernays. The University of Oklahoma Press, Norman, 1952. 374 pages. \$5.00.

*Reviewed by Edward K. Moss**

Virtually anything that Edward L. Bernays writes on public relations has an importance deriving from a general recognition of his position in the forefront of modern public-relations practice since the days of World War I when it began to be understood as a specialized function. That the practice of public relations was not born in the first or second decades of the century Mr. Bernays makes the thesis of the first part of his book. Rather, he contends, it is traceable back to more primitive societies when leaders first exerted their influence through persuasion as well as force and intimidation. The use of influence is identified as a forerunner of modern public-relations practice and its role in contemporary society. This concept has led to considerable controversy, which adds to the interest in Mr. Bernays' writings.

It might be argued that his review of the origins and the development of public relations up to 1900 is biased in that it reads into history interpolations that are moot. He as-

cribes to Julius Caesar, for example, a public-relations objective in the writing and circulating of his commentaries on his campaign in Gaul—the objective of making himself known in order to promote his political fortunes in Rome. Whether or not this was an objective of Caesar, undeniably it must have had its effect and Mr. Bernays' capsule history of the world revolving on an axis of public-relations practice makes its point even if it is oversimplified.

His history and analysis of the development of public-relation practices since 1900 is more rewarding. He postulates that there have been, in the first 50 years of this century, three major evolutions in public-relations activities. "Muckraking," he points out, did not alter the attitude of business toward the public, but it did make business word-conscious and it brought about the use of publicity as a weapon in a free-for-all fight for public goodwill. This period he characterizes as a period of "the public be informed."

Mr. Bernays traces the emergence from the social and economic turmoil of the period 1929-1941 of the concept that business—"no longer merely public business but individual enterprise devoted to public business"—should be based on the interests, conveniences, and necessities of the public, with considerations of public policy a large factor in all business decisions. He sees the period from 1941 to the present as an "era of integration," with growing attention to the application of the findings of the social sciences in the realm of human motivation and behavior to considerations of maladjustment and misunderstandings between the public and individuals or organizations and as a basis for determining courses of action to improve this relationship.

Mr. Bernays is in agreement with most public-relations practitioners in believing it is symptomatic of the middle twentieth century for *Fortune* to have warned in 1950 that "either the day of public relations as performance must come or private business must reconcile itself to a steady contracting." To quote the magazine further, "Business is still in trouble: Only good public relations—i.e., good

* Assistant Administrator of the Defense Production Administration and of the National Production Authority, in charge of public relations; Chairman, Defense Production Information Committee.

performance that's understood and appreciated—will insure . . . its future."

The latter half of the book presents separate discussions of such diverse subjects as attitude polls, the use of direct mail, public relations for public education, public relations in labor-management adjustments in the development of the profession of nursing, and other matters arising out of his own experience. Mr. Bernays is particularly concerned with the social implications of the problems he discusses rather than with the tools or techniques of their solution. He advocates with persuasion the belief that the tools for measuring public attitude and probing public motivation are of great importance but not so important that there can be a mechanistic reliance on them. Judgment in the planning of their use, he argues, is even more important.

For this reason, it would be very difficult to quarrel with his fundamental approach to the arts and sciences involved in public relations even when there is considerable basis for disagreement with his opinions as to the value of techniques or methods. This reviewer, for example, agrees emphatically with Mr. Bernays' judgment of the role of public opinion in a period of economic mobilization such as the present and just as emphatically disagrees with his recommendation that the mobilization of opinion would be best accomplished through a separate government department. That coordination at the White House level is essential is undeniable, but the creation of a separate operating agency with responsibility for the public relations of the various agencies and departments is somewhat akin to divorcing the public-relations function in business management from the other operating or line functions, such as sales and production, or any function of which it is an integral part.

This fifth book of Mr. Bernays is not so much a comprehensive presentation of the field of his endeavor as it is a collection of case histories and essays on public relations. Rather than enunciate theories and principles, he has sought to show that public relations has evolved out of the need of human beings for leadership and integration in an increasingly complex world. He reflects the existence of such

basic principles as he has by recounting his application of them in his own work.

Mr. Bernays' volume is admittedly not a definitive work or an example of scholarship in the field. It is, however, an interesting compilation of his views and an analysis of some of the public-relations problems which he has tackled with success.

DESIGN AND CONTROL OF BUSINESS FORMS. By Frank M. Knox. McGraw-Hill Book Company, Inc., New York, 1952. 219 pages. \$6.50.

*Reviewed by Edwin B. Gage**

Frank Knox has literally forced recognition of the work of the form control and design specialist as a necessary part of good industrial engineering. A recognized authority in the field, he has done an outstanding job in surveying and organizing the design and control of forms for various industries. During World War II, moreover, he performed a similar service for the U. S. Navy—a project involving tens of thousands of forms.

Mr. Knox has made several approaches to the distribution of his unique knowledge. His dispassionate treatment of his subject has always reflected a man with a message rather than one who is striving to sell an idea for mere personal gain. His latest book, selected by the National Office Management Association as the first in a NOMA series to make "available to the practitioners in the field a formally organized authoritative body of knowledge," is noteworthy for its clear, concise presentation of *why* control and design are needed and *how* to attack the problem.

"No business," says Mr. Knox, "could operate without those pieces of paper which provide the life blood of information whereby business is carried on," yet "many attempts to do something about the paperwork problem have not been productive of the results management would have liked." Generally this lack of success has been due to:

* Western Electric Company, Kearny, N. J.

1. Failure to recognize the true importance of the paperwork problem because of a mistaken concept of its unimportance in relation to the manufacturing or other profit-producing aspects of business.

2. Failure to provide a proper relationship between the line and staff aspects of the paperwork problem.

3. Failure to have a program—relying instead upon opportunism for results.

4. Failure to provide staff personnel to do the work, assuming that forms control automatically follows office systems and procedures work.

5. Failure by the staff personnel to bring the proper technical know-how to their work.

Probably some or all of these failures could be found in many businesses. If, however, the managements responsible will read only the first three chapters of Mr. Knox's book, they will learn what forms mean to the office—how real savings become possible if forms are studied and control over them is effective. They will be introduced to the problem of organizational control over office forms and discover how a properly set-up organization

works to effect the necessary control. Finally, they will consider forms-designing as a specialized operation and see why this is a specialized field and why specialists should be developed for it.

With such convincing proof of the need for form design and control, it should be necessary for management only to provide the needed specialists. Such specialists will find the book a practical text on what goes to make up a form (good practices for assuring good forms); tool: necessary for forms design (the why and how for the designer); designing the form (the physical and functional standards); specification-writing (so that the printer can turn out the form correctly the first time); paper for forms-printing (the ways to determine the best type for a particular purpose). Management can then integrate its work with a good purchasing setup, and the buyer will find excellent guidance in Mr. Knox's chapter on the purchasing of office forms.

Here, then, is a text covering the field—a "must" for the executive and for the operating staff carrying out management's policies and procedures.

Publications Received

(Please order directly from publishers)

BUSINESS FUNDAMENTALS FOR EVERYONE. By Charles Fancher, J. Francis Gallagher, and Charles W. Hamilton. Prentice-Hall, Inc., New York, 1952. 486 pages. \$3.35.

PRACTICAL PSYCHOLOGY. By F. K. Berrien. The Macmillan Company, New York, 1952. Revised edition. 640 pages. \$5.00.

ORGANIZING AND FINANCING BUSINESS. By Joseph H. Bonneville and Lloyd E. Dewey. Prentice-Hall, Inc., New York, 1952. Fifth revised edition. 402 pages. \$6.35.

ECONOMETRICS. By Gerhard Tintner. John Wiley & Sons, Inc., New York, 1952. 370 pages. \$5.75.

STUDENT DEFERMENT AND NATIONAL MANPOWER POLICY: A Statement by the National Manpower Council with Facts and Issues Prepared by the Research Staff. Columbia University Press, New York, 1952. 102 pages. \$2.00.

CAN YOU GET A RAISE? By Herbert S. Minot and Louis Zasloff. Business Editors' Publishing Company, 225 Broadway, New York 7, N. Y. 1952. 96 pages. \$2.00.

THE ORGANIZATION OF INDUSTRIAL SCIENTIFIC RESEARCH. By C. E. Kenneth Mees and John A. Leermakers. McGraw-Hill Book Company, Inc., New York, 1950. Second edition. 383 pages. \$5.00.

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Aims, Responsibilities, and Scope of Management; a Management Formula; Impact of the Scientific Management Movement; Current Philosophies and Creeds; Specific Skills Required by the Manager; Managerial Tools and Their Uses; Qualifications and Preparation for Management.

UNIT TWO: PLANNING AND CONTROLLING

Establishing Objectives, Plans, and Policies; Setting Standards of Performance; What to Control; Control Tools; Organizing and Introducing Controls; Using Controls.

UNIT THREE: ORGANIZATION BUILDING

Importance of Organization Planning; Principles and Attributes of Sound Organization; Planning the Structure Needed and Controlling It; Describing the Organization; Using Organization Structure to Manage.

UNIT FOUR: APPRAISING RESULTS AND TAKING ACTION

Relationship Between Appraisals of Operations and of People; Types and Methods of Executive Appraisals; Conducting the Appraisal and the Appraisal Interview; Taking Action to Improve Performance.

For copies of the brochure describing more fully the course content and attendance schedules, write:

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